

TOWER LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2007

TOWER LIMITED
FINANCIAL STATEMENTS
For the year ended 30 September 2007

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TOWER LIMITED
INCOME STATEMENTS
For the year ended 30 September 2007

	Note	Group		Company	
		2007 NZ\$000	2006 NZ\$000	2007 NZ\$000	2006 NZ\$000
Revenue from continuing operations					
Premium revenue from insurance contracts		388,651	363,840	-	-
Less: Outwards reinsurance expense		(29,590)	(28,199)	-	-
Net premium revenue	3	359,061	335,641	-	-
Investment revenue	4	74,583	87,783	157	122
Fee and other revenue	5	47,573	48,912	-	-
Net operating revenue		481,217	472,336	157	122
Claims expense		257,167	249,971	-	-
Less: Reinsurance recoveries revenue		(9,781)	(7,612)	-	-
Net claims expense	6	247,387	242,359	-	-
Change in health and life insurance contract liabilities		(10,164)	(6,119)	-	-
Change in life investment contract liabilities	26(a)	4,183	3,524	-	-
Management and sales expenses	7	178,223	177,384	11,182	3,265
Net claims and operating expenses		419,628	417,148	11,182	3,265
Amortisation expense	12	1,187	1,131	-	-
Financing costs	7	5,574	15,258	-	1,558
Profit / (Loss) before taxation		54,828	38,799	(11,025)	(4,701)
Income tax expense / (credit)	8(a)	19,598	23,645	(611)	(1,643)
Profit / (Loss) from continuing operations		35,230	15,154	(10,414)	(3,058)
(Profit) attributable to minority interests		(628)	(1,064)	-	-
Profit / (Loss) from continuing operations attributable to shareholders		34,602	14,090	(10,414)	(3,058)
Profit from discontinued operations	39	198,030	49,404	-	-
Profit / (Loss) for the year		232,632	63,494	(10,414)	(3,058)
Profit / (Loss) for the year attributable to shareholders		232,632	63,494	(10,414)	(3,058)

		Cents	Cents
Basic Earnings per share ⁽¹⁾	38	110.16	17.66
Basic Earnings per share continuing operations ⁽¹⁾	38	16.39	3.92
Basic Earnings per share discontinued operations ⁽¹⁾	38	93.77	13.74
Diluted Earnings per share continuing operations ⁽²⁾		16.37	3.92
Alternative Earnings per share continuing operations ⁽³⁾	38	18.27	7.47

Notes

(1) Basic earnings per share for 30 September 2007 and 30 September 2006 are based on the weighted average number of ordinary shares outstanding during the year.

(2) Diluted earnings per share for 30 September 2007 and 30 September 2006 are based on the weighted average number of ordinary shares outstanding during the year, adjusted for the effects of all dilutive potential ordinary shares.

(3) Alternative earnings per share for 30 September 2007 is based on 189.3 million fully paid ordinary shares on issue. Earnings per share for 30 September 2006 is based on 188.5 million shares to facilitate comparison.

The above income statements should be read in conjunction with the accompanying notes.

TOWER LIMITED
BALANCE SHEETS
As at 30 September 2007

	Note	Group		Company	
		2007 NZ\$000	2006 NZ\$000	2007 NZ\$000	2006 NZ\$000
Assets					
Cash and cash equivalents	30	64,237	53,484	2,304	2,018
Receivables	9	136,413	123,800	259,351	259,433
Financial assets at fair value through profit or loss	10	1,130,081	1,283,281	-	-
Assets of disposal group classified as held for sale	39(a)	3,148	4,371,696	-	-
Investments in subsidiaries	13	-	-	188,871	188,871
Investment property	11	2,158	2,114	-	-
Deferred acquisition costs	14	51,567	53,275	-	-
Other assets		-	231	-	-
Property, plant and equipment	15	5,375	4,311	-	-
Assets arising from reinsurance contracts	26	21,886	32,240	-	-
Non current tax asset	8(b)	50,274	50,163	-	-
Deferred tax asset	8(c)	47,340	53,279	10,555	9,914
Intangible assets	12	33,714	34,264	-	-
Total Assets		1,546,193	6,062,138	461,081	460,236
Liabilities					
Payables	16	68,127	251,644	583,064	5,665
Current tax liabilities		10,634	16,206	-	-
Liabilities of disposal group classified as held for sale	39(a)	342	3,792,936	-	-
Provisions	17	8,092	8,436	-	-
Interest bearing liabilities	18	87,151	198,434	-	-
Insurance liabilities	19	243,602	240,868	-	-
Deferred tax liabilities	8(c)	50,940	44,164	30	-
Other liabilities	20	21,128	21,927	-	-
Life insurance contract liabilities	26	749,185	811,725	-	-
Life investment contract liabilities	26	45,095	46,425	-	-
Total Liabilities		1,284,296	5,432,765	583,094	5,665
Net Assets / (Liabilities)		261,897	629,373	(122,013)	454,571
Equity					
Contributed equity	21	460,595	913,368	460,595	913,368
Retained profits / (accumulated loss)	22	(91,680)	(349,716)	(472,280)	(461,866)
Reserves	23	(110,735)	61,804	(110,328)	3,069
Total equity attributed to shareholders		258,180	625,456	(122,013)	454,571
Minority interests		3,717	3,917	-	-
Total Equity/ (Deficit)		261,897	629,373	(122,013)	454,571
		NZ \$	NZ \$		
Net asset backing per share		1.38	1.75		

The financial statements were approved for issue by the Board on 28 November 2007.

Chairman

Director

The above balance sheets should be read in conjunction with the accompanying notes

TOWER LIMITED
STATEMENTS OF CHANGES IN EQUITY
For the year ended 30 September 2007

	Note	Group		Company	
		2007 NZ\$000	2006 NZ\$000	2007 NZ\$000	2006 NZ\$000
Total equity at the beginning of the financial year		629,373	546,938	454,571	455,423
Profit / (loss) for the year		232,632	63,494	(10,414)	(3,058)
Movements in retained profits:					
Post acquisition retained earnings of disposed subsidiaries	22	-	(2,661)	-	-
Realisation of foreign currency translation reserve on liquidated subsidiaries recognised in equity	22	26,175	-	-	-
Other	22	(771)	-	-	-
Total movements in retained profits		258,036	60,833	(10,414)	(3,058)
Movements in reserves:					
Exchange differences on translation of foreign operations	23	(59,142)	19,501	-	-
Separation reserve on demerger of TOWER Australia	23	(113,000)	-	(113,000)	-
Realisation of foreign currency translation reserve on liquidated subsidiaries recognised in profit	23	-	(529)	-	-
Movement in share based payments reserve	23	(397)	610	(397)	610
Movement in asset revaluation reserve	23	-	(328)	-	-
Total movements in reserves		(172,539)	19,254	(113,397)	610
Total recognised income and expense for the year		85,497	80,087	(123,811)	(2,448)
Transactions with equity holders in their capacity as equity holders:					
Shares issued	21	1,227	1,596	1,227	1,596
Shares cancelled on demerger of TOWER Australia	21	(454,000)	-	(454,000)	-
Change in minority interest		(200)	752	-	-
Movements in equity for the financial year		(367,476)	82,435	(576,584)	(852)
Total equity / (deficit) at the end of the financial year		261,897	629,373	(122,013)	454,571

The above statements of changes in equity should be read in conjunction with the accompanying notes.

TOWER LIMITED
STATEMENTS OF CASH FLOWS
For the year ended 30 September 2007

	Note	Group		Company	
		2007 NZ\$000	2006 NZ\$000	2007 NZ\$000	2006 NZ\$000
Cash flows from operating activities					
Premiums received		388,608	142,450	-	-
Reinsurance paid		(29,291)	(27,708)	-	-
Interest received		34,443	28,055	157	122
Dividends received		19,623	36,523	-	-
Investment income / (loss)		(13,240)	100,313	-	-
Non-life company fee income		38,875	88,202	14	-
Claims expenses		(321,860)	(255,444)	-	-
Reinsurance received		20,464	9,848	-	-
Payments to suppliers and employees		(158,254)	(139,935)	-	291
Interest paid		(3,423)	(2,263)	-	-
Income taxation received/(paid)		(11,278)	(14,907)	-	-
Net cash inflow / (outflow) from operating activities	30(b)	(35,333)	(34,866)	171	413
Cash flows from investing activities					
Net proceeds / (payments) for financial assets		(14,075)	(133,387)	-	-
Proceeds from disposal of business		176,052	-	-	-
Net proceeds / (payments) for purchase of property, plant and equipment		(3,711)	(667)	-	-
Net cash inflow / (outflow) from investing activities		158,266	(134,054)	-	-
Cash flows from financing activities					
Proceeds from issue of equity share capital	21	1,227	1,596	1,227	1,596
Proceeds from borrowings		85,000	-	-	-
Repayment of borrowings		(197,806)	-	-	-
Net advances to subsidiaries		-	-	(1,112)	(121)
Net cash inflow / (outflow) from financing activities		(111,579)	1,596	115	1,475
Net increase / (decrease) in cash and cash equivalents		11,354	(167,324)	286	1,888
Cash and cash equivalents at beginning of year		52,856	701,077	2,018	135
Less: Cash and cash equivalents of discontinued operations	39	-	(480,897)	-	-
Effect of exchange rate change on cash and cash equivalents		-	-	-	(5)
Cash and cash equivalents at end of year	30(a)	64,210	52,856	2,304	2,018

Note

The Statements of Cash Flow presents the net changes in cash flow for both financial assets and property, plant and equipment. TOWER considers that knowledge of gross receipts and payments is not essential to understanding certain activities of TOWER and it is considered acceptable to report only the net changes in cash flow for these items. This is based on the fact that either the turnover of these items is quick, the amounts are large, and the maturities are short or, in the case of property, plant and equipment, the value of the sales are immaterial.

The above cash flow statements should be read in conjunction with the accompanying notes.

TOWER LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2007

1. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been applied to all the periods presented, unless otherwise stated.

Basis of preparation

This financial report has been prepared in accordance with New Zealand Equivalents to International Reporting Standards (NZ IFRS), Companies Act 1993 and the Financial Reporting Act 1993.

The financial statements were authorised for issue by the Board of Directors on 28 November 2007.

Compliance with International Financial Reporting Standards (IFRS)

Compliance with NZ IFRS ensures that the consolidated financial statements and notes of TOWER Limited comply with IFRS.

The financial statements have been prepared on a fair value basis with any exceptions noted in the accounting policies below.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of TOWER Limited ("Company" or "parent entity") as at 30 September 2007 and the results of all subsidiaries for the year then ended. TOWER Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities over which the consolidated entity has control, being the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the consolidated entity controls another entity.

The results of any subsidiaries acquired during the year are consolidated from the date on which control is transferred to the consolidated entity and the results of any subsidiaries disposed of during the year are consolidated up to the date control ceases.

The acquisition of controlled entities is accounted for using the purchase method of accounting.

The share of net assets of controlled entities attributable to minority interests is disclosed separately in the balance sheet and income statement.

Intercompany transactions and balances between Group entities are eliminated on consolidation.

Principles underlying the conduct of life insurance business

The life insurance operations of the Group comprise the selling and administration of contracts which are classified as either life insurance contracts or life investment contracts. Contracts that include both investment and insurance elements are separated into these two elements and reported accordingly.

Life insurance contracts involve the acceptance of significant insurance risk. Insurance risk is defined as significant if and only if an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance. Insurance contracts include those where the insured benefit is payable on the occurrence of a specified event such as death, injury or disability caused by accident or illness. The insured benefit is either not linked or only partly linked to the market value of the investments held by the life insurer, and the financial risks are substantially borne by the life insurer. Any products that do not meet the definition of a life insurance contract are classified as life investment contracts.

TOWER LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2007

1. Summary of significant accounting policies (cont.)

Principles underlying the conduct of life insurance business (cont.)

Life investment contracts include investment-linked contracts where the benefit amount is directly linked to the market value of the investments held. While the underlying assets are registered in the name of the life insurer and the investment-linked policy owner has no direct access to the specific assets, the contractual arrangements are such that the investment-linked policy owner bears the risks and rewards of the investment performance. The life insurer derives fee income from the administration of investment-linked policies.

Participating policyowner benefits, both vested and unvested, are treated as expenses when incurred and liabilities until paid.

Specific accounting policies

(a) Premium revenue

Life insurance contracts

Premiums on life insurance contracts are separated into their revenue and deposit components. Where it is not practicable to split out the two components all premiums have been recognised as revenue. Where policies provide for the payment of amounts of premiums on specific due dates, such premiums are recognised as revenue when due. Unpaid premiums are recognised as revenue only during the days of grace or where secured by the surrender values of the policies concerned. Other premiums are recognised as revenue on a cash received basis.

Life investment contracts

Under life investment contracts the life companies receive deposits from policyholders which are then invested on behalf of the policyholders. No premiums are recognised as revenue. Fees deducted from members accounts are accounted for as fee revenue.

General insurance

Premium revenue is recognised in the period in which the premiums are earned during the term of the contract. The proportion of premiums not earned in the income statement at the reporting date is recognised in the balance sheet as unearned premium liability.

Premiums on unclosed business are brought to account using estimates based on the previous year's actual unclosed business with due allowance made for any changes in the pattern of new business and renewals.

(b) Fee and other revenue

Fee revenue on investment contracts and other services provided by the Group is recognised in the period the services are provided.

(c) Investment revenue

Investment revenue is recognised as follows:

Dividends and distributions

Revenue is recognised when the right to receive payment is established. Dividends are recorded as income at the date the shares become "ex-dividend".

Property Income

Property income is recognised on an accrual basis.

Interest Income

Interest income is recognised on an effective interest method.

Fair value gains and losses

Fair value gains and losses on financial assets at fair value are recognised through the Income statement.

(d) Claims expense

Life insurance contracts

Claims are recognised when the liability to a policyholder under a life insurance contract has been established or upon notification of the insured event. Claims are separated into their expense and withdrawal components. Claims on risk business are treated as an expense and are recognised when a liability to the policyholder is established.

Life investment contracts

There is no claims expense in respect of investment contracts. Surrenders and withdrawals which relate to life investment contracts are treated as a movement in life investment contract liabilities. Other claim amounts are similar to withdrawals and as such do not relate to the provision of services or the bearing of risk. Accordingly, they are not expenses and are treated as movements in life insurance contract liabilities.

General insurance contracts

Claims expenses are recognised when claims are notified with the exception of claims incurred not reported for which a provision is estimated (discussed in note 2(b)).

TOWER LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2007

1. Summary of significant accounting policies (cont.)

(e) Basis of expense apportionment

All operating expenses in respect of life insurance or life investment contracts have been apportioned between policy acquisition, policy maintenance and investment management expenses with regard to the objective when incurring the expense and the outcome achieved.

The apportionment process is adopted by applying the following methodology:

- (i) Expenses that can be directly identifiable and attributable to a particular class of business are not apportioned.
- (ii) Commission expenses that cannot be allocated to a class of business, for example volume bonuses, are apportioned on the basis of new business and renewal commissions of each class, allowing for limits implied by the basis of adviser remuneration.
- (iii) Investment expenses are apportioned to the classes of business on the mean balance of assets under management.
- (iv) Other expenses that cannot be allocated to a particular class of business are apportioned to the classes of business based on appropriate cost drivers, including number of new policies issued and related premiums, number of new units issued, mean balances of assets under management, average number of policies in-force and time and activity based allocations.

(f) Policy acquisition costs

Life insurance contracts

The actuary, in determining the life insurance contract liabilities, takes account of the deferral and future recovery of acquisition costs which are capitalised by way of movement in life insurance contract liabilities, then amortised over the period in which they will be recoverable.

Other contracts

Policy acquisition costs comprise the costs of acquiring new business, including commission, advertising, policy issue and underwriting costs, agency expenses and other sales costs. Acquisition costs are initially recorded in the income statement, with any amounts to be deferred then taken to the balance sheet as a Deferred Acquisition Cost (DAC).

Deferred acquisition costs are recognised for the products noted below.

Superannuation and medical products

The acquisition costs of establishing contracts for certain superannuation and medical products are deferred. These costs are amortised over the periods of expected future benefit. A comparison to recoverable value is carried out annually, with any variance below carrying value taken to the income statement in that year.

General insurance products

Acquisition costs incurred in obtaining general insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in subsequent reporting periods.

Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the general insurance contracts to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue.

(g) Outwards reinsurance

Premiums ceded to reinsurers under reinsurance contracts are recorded as an outwards reinsurance expense and are recognised over the period of indemnity of the reinsurance contract. Accordingly, a portion of outwards reinsurance premium is treated at balance date as a prepayment.

(h) Financing costs

Financing costs include interest on external debt (borrowing costs), the impact from hedging borrowing costs and amortisation of transaction costs.

(i) Taxation

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities settled, based on the tax rates enacted or substantively enacted for each jurisdiction. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences or unused tax losses can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of the other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

TOWER LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2007

1. Summary of significant accounting policies (cont.)

(i) Taxation (cont.)

Deferred tax (cont.)

Deferred tax liabilities are not recognised for temporary differences arising on investments in controlled entities where the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Income tax for investment contracts and life insurance contracts business

The income tax expense recognised in the income statement reflects tax imposed on shareholders as well as policyholders.

Income tax for other business

The income tax expense for all other business is the tax payable on taxable income for the current period, based on the income tax rate for each jurisdiction and adjusted for changes in deferred tax assets and liabilities attributable to temporary differences and unused tax losses.

Tax Consolidation

TOWER Limited and its New Zealand wholly-owned subsidiaries comprise a New Zealand tax consolidated group of which TOWER Limited is the head entity.

Under tax consolidation the head entity assumes the following balances from subsidiaries within the tax consolidated Group:

- current tax balances arising from external transactions recognised by entities in the tax-consolidated Group which occurred after implementation date; and
- deferred tax assets arising from unused tax losses and unused tax credits recognised by entities in the tax-consolidated Group which occurred after implementation date.

Assets and liabilities which arise as a result of balances transferred from entities within the tax consolidated Group to the head entity are recognised as related party balances receivable and payable in the balance sheet. The recoverability of balances arising from tax funding agreements is based on the ability of the tax-consolidated Group to utilise the amounts recognised by the head entity.

GST

All revenues, expenses and assets are recognised net of goods and services taxes (GST) except where the GST is not recoverable. In these circumstances the GST is included in the related asset or expense. Receivables and payables are reported inclusive of GST. The net GST payable to or recoverable from the tax authorities as at balance date is included as a receivable or payable in the balance sheet.

Cash flows are included in the Statements of Cash Flow on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

(j) Foreign currency

Functional and presentation currencies

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates. The consolidated Group financial statements are presented in New Zealand dollars.

Transactions and balances

In preparing the financial statements of the individual entities transactions denominated in foreign currencies are translated into the reporting currency using the exchange rates in effect at the transaction dates. Monetary items receivable or payable in a foreign currency, including forward exchange contracts, are translated at reporting date at the closing exchange rate.

Translation differences on non-monetary items such as financial assets held at fair value through profit or loss are reported as part of their fair value gain or loss.

Exchange differences arising on the settlement or retranslation of monetary items at year end exchange rates are recognised in the income statement.

Consolidation

For the purpose of preparing consolidated financial statements the assets and liabilities of subsidiaries with a functional currency different to the Company are translated at the closing rate at the balance sheet date. Income and expense items for each subsidiary are translated at a weighted average of exchange rates over the period, as a surrogate for the spot rates at transaction dates. Exchange differences are taken to the Foreign Currency Translation Reserve and recognised in the Statement of Changes in Equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and are translated at the closing rate with movements recorded through the Foreign Currency Translation Reserve in the Statement of Changes in Equity.

TOWER LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2007

1. Summary of significant accounting policies (cont.)

(j) Foreign currency (cont.)

Consolidation (cont.)

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

(k) Cash and cash equivalents

Cash and cash equivalents includes cash on hand and deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within interest bearing liabilities on the balance sheet.

(l) Receivables

Receivables are recognised initially at fair value. Due to the short term nature of these assets the recoverable value, i.e. allowing for doubtful debts, will be the fair value.

(m) Property, plant and equipment

Plant and equipment is initially recorded at cost including transaction costs and subsequently measured at cost less any subsequent accumulated depreciation and impairment losses. Depreciation is calculated using the straight line method to allocate their cost or revalued amounts, net of any residual amounts, over their useful lives.

The assets' useful lives are reviewed and adjusted if appropriate at each balance date. An asset's carrying amount is written down immediately to its recoverable amount if it is considered that the carrying amount is greater than its recoverable amount.

Computer Equipment	3-5 years
Furniture & Fittings	5 years
Motor Vehicles	5 years
Leashold Property Improvements	Over the term of the lease

(n) Financial assets backing insurance business

The Group has determined that:

- all assets of the life insurance companies are assets backing the policy liabilities of the life insurance business;
- all assets within the general insurance companies are held to back general insurance liabilities, with the exception of property, plant and equipment and investments in operating subsidiaries; and
- all assets within the health insurance company are held to back health insurance liabilities, with the exception of property, plant and equipment and investments in operating subsidiaries.

As these assets are managed under the Group's Risk Management Statement on a fair value basis and are reported to the Board on this basis, they have been valued at fair value through profit or loss wherever the applicable standard allows.

Fair value is determined as follows:

- Cash assets and bank overdrafts are carried at face value which approximates fair value;
- Shares, fixed interest securities, options and units in trusts listed on stock exchanges are valued at the quoted bid price of the instrument at balance sheet date;
- Unlisted fixed interest securities are recorded at amounts based on valuations using rates of interest equivalent to the yields obtainable on comparable traded investments at balance date;
- Unlisted unit trusts are recorded at fund managers' quoted redemption prices;
- Receivables are carried at book value, which is the best estimate of fair value as they are settled within a short period;
- Directly held investment property, which is property held to earn rentals and/or for capital appreciation and is not occupied by the Group, is carried at fair value supported by valuations carried out every three years.

(p) Intangibles

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the entity acquired, at the date of acquisition.

Following initial recognition, goodwill on acquisition of a business combination is not amortised but is tested for impairment bi-annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with NZ IAS 14 Segment Reporting.

TOWER LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2007

1. Summary of significant accounting policies (cont.)

(p) Intangibles (cont.)

Goodwill (cont.)

Any impairment is recognised immediately.

On disposal of an entity the carrying value of any associated goodwill is included in the calculation of the gain or loss on sale.

Software

Application software is recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight line basis over the estimated useful life of the software.

Computer software 3-5 years

Present value of in-force business (PVIF)

Present value of in-force business represents the amount paid by the Group to purchase in-force life policies within a business combination. The present value of in-force business has a finite useful life and is carried at cost less accumulated amortisation and impairment. Amortisation is calculated to allocate the cost of in-force business over the estimated useful lives which vary from 8 to 20 years from date of acquisition.

(q) Impairment of non financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested bi-annually for impairment. Assets with a definite useful life are subject to amortisation and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

(r) Acquisition of assets

Identifiable assets acquired and liabilities assumed in business combination are measured at fair value at acquisition date with any excess of cost over the fair value of the net assets acquired recognised as goodwill on the balance sheet.

If there is negative goodwill then this is recognised directly in the income statement.

(s) Derivative financial instruments and Other financial instruments

All derivatives and other financial instruments are recognised at fair value through profit or loss (refer note 28).

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categories as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables" and cash and cash equivalents in the balance sheet.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

(t) Leased assets

As lessor

Rental income on operating leases is recognised as income in the periods the services are provided and the amounts are receivable.

Initial direct costs incurred in initiating the lease are added to the carrying value of the leased asset and amortised on a straight line basis over the term of the lease.

As lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease payments are recognised as an expense in the periods the services are received over the period of the lease.

Benefits received and receivable for entering into an operating lease are recognised on a straight line basis over the term of the lease.

(u) Borrowings

Interest bearing debt and overdrafts are initially measured at fair value, net of transaction costs incurred and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings.

(v) Payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unsettled.

(w) Provisions

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Provisions are only recognised when the Group has a present legal or constructive obligation as a result of a past event or decision, and it is more likely than not that an outflow of resources will be required to settle the obligation. Provisions are recognised at the best estimate of future cash flows discounted to present value where the effect is material.

TOWER LIMITED
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For the year ended 30 September 2007

1. Summary of significant accounting policies (cont.)

(x) Employee entitlements

Provision is made for employee entitlements for services rendered up to the balance date. This includes salaries, wages, bonuses, annual leave and long service leave, but excludes share-based payments. Liabilities arising in respect of employee entitlements expected to be settled within 12 months of the reporting date are measured at their nominal amounts. All other employee entitlements are measured at the present value of the estimated future cash outflows to be made in respect of services provided up to the balance date. In determining the present value of future cash outflows, discount rates used are based on the interest rates attaching to government securities which have terms to maturity approximating the terms of the related liability.

(y) Capital guarantees

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not measured at fair value with changes in fair value recognised in the income statement.

TOWER provides capital guarantees to certain funds. Where these are assessed to be embedded derivatives, a financial liability is recognised in the value of such liabilities.

(z) Life investment contract liabilities

These contracts are recognised and subsequently measured at fair value with any change in value being recognised in the income statement. Fair value is the current account balance plus investment fluctuation reserves subject to a minimum of current surrender value.

(aa) Life insurance contract liabilities

The financial reporting methodology used to determine the value of life insurance contract liabilities is referred to as Margin on Services (MoS).

Under MoS the excess of premium received over claims and expenses ('the profit margin') is recognised over the life of the contract in a manner that reflects the pattern of risk accepted from the policyholder ('the service'), hence the term Margin on Services. The movement in life insurance contract liabilities recognised in the Income Statement reflects the planned release of this margin.

Life insurance contract liabilities are ordinarily determined using a projection method, whereby estimates of policy cash flows (premiums, benefits, expenses and profit margins to be released in future periods) are projected into the future. The policy liability is calculated as the net present value of these projected cash flows using best estimate assumptions about the future. When the benefits under the life insurance contract liability are linked to the assets backing it, the discount rate applied is based on the expected future earnings rate on those assets. Where the benefits are not linked to the performance of the backing assets, a risk free discount rate is used. The risk free discount rate is determined by the Chief Actuary based on the zero couponswap rates, depending on the nature, structure and term of the contract liabilities.

The assumptions used in the calculation of the policy liabilities are reviewed at each reporting date.

(ab) General insurance liabilities

Outstanding claims are measured at the central estimate of the present value of expected future payments after allowing for inflation and superimposed inflation and discounted at the risk free rate.

The expected future payments include those in relation to claims reported but not yet paid, claims incurred but not yet reported (IBNR), claims incurred but not enough reported (IBNER) and anticipated claims handling costs. Claims handling costs include costs that can be associated directly with individual claims, such as legal and other professional fees, and costs that can only be indirectly associated with individual claims, such as claims administration costs. In addition a risk margin is added to the claims provision to recognise the inherent uncertainty of the central estimate.

Provision has been made for the estimate of claim recoveries from third parties in respect of general insurance business.

TOWER LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2007

1. Summary of significant accounting policies (cont.)

(ab) General insurance liabilities (cont.)

Liability adequacy testing is performed in order to recognise any deficiencies in the income statement arising from the carrying amount of the unearned premium liability less any related deferred acquisition costs and intangible assets not meeting the estimated future claims under current insurance conditions. Liability adequacy is performed at a portfolio level of contracts that are subject to broadly similar risks and are managed together as a single portfolio.

(ac) Contributed equity

Ordinary shares issued by the Group are classified as equity and are recognised at fair value less direct issue costs.

(ad) Share based payments

The Group issues share-based compensation packages to senior executives as part of their remuneration packages.

Share options vesting before 1 October 2004

No expense is recognised in respect of the options or shares issued to employees for nil consideration. Shares issued following the exercise of options are recognised at that time and the proceeds received allocated to share capital.

Share options vesting on or after 1 October 2004

These options are measured at fair value at grant date and expensed on a straight-line basis over the period during which the employee becomes unconditionally entitled to the options, based on the estimate of shares that will eventually vest. Fair value at grant date is measured using a binomial model, taking into account the specific conditions of the options issued. The determination of fair value excludes the impact of any non-market vesting conditions which are allowed for in assumptions about the number of options that are expected to be exercisable. When an expense is recognised there is an equal and opposite entry made to the share option reserve in equity. When the options are exercised the receipt of the exercise price is transferred to share capital.

Where there is a tax deduction allowable in relation to the share option scheme this is recognised in the income statement, to the extent of the tax credit commensurate to the expense recognised in the income statement, with the balance reported through the share option reserve in equity.

Where terms are changed during the period that increase the cost of the options then this is recognised over the remaining vesting period. Where terms are changed during the period that decrease the cost of the options then there is no change to the expense recognised.

(ae) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different to those of segments operating in other economic environments.

(af) Non-current assets held for sale and discontinued operations

Non-current assets are classified as held for sale and stated at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset is recognised at the date of derecognition.

Non-current assets are not depreciated or amortised while they are classified as held for sale.

Non-current assets classified as held for sale are presented separately from the other assets in the balance sheet.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the income statement for 2007, and 2006 has been restated for comparative purposes. The assets and liabilities of the discontinued operations are presented separately from other assets and liabilities on the face of the balance sheet.

(ag) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the year as at the 20 November 2006, the date of the TOWER Australia separation, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(iii) Alternative earnings per share

Alternative earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the number of ordinary shares outstanding as at the 20 November 2006, the date of the TOWER Australia separation, adjusted for bonus elements in ordinary shares issued during the year.

(ah) Code of conduct disclosure - chief actuary

TOWER's chief actuary's remuneration includes bonuses that are, in part, dependent upon the reported profits of the Group. The policy liabilities as assessed by him therefore impact his total remuneration.

Comparatives

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Where necessary, comparative information has been reclassified to achieve consistency in disclosure with the current year.

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2. Critical accounting judgements and estimates

The Group makes estimates and assumptions in respect of certain key assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key areas where critical accounting estimates are applied are noted below.

(a) Policy liabilities

Policy liabilities for life insurance contracts are computed using statistical or mathematical methods, which are expected to give approximately the same results as if an individual liability was calculated for each contract. The computations are made by suitably qualified personnel on the basis of recognised actuarial methods, with due regard to relevant actuarial principles. The methodology takes into account the risks and uncertainties of the particular classes of life insurance business written. Deferred policy acquisition costs are connected with the measurement basis of life insurance liabilities and are equally sensitive to the factors that are considered in the liability measurement.

The key factors that affect the estimation of these liabilities and related assets are:

- the cost of providing benefits and administering these insurance contracts;
- mortality and morbidity experience on life insurance products, including enhancements to policyholder benefits;
- discontinuance experience, which affects the Group's ability to recover the cost of acquiring new business over the lives of the contracts; and
- the amounts credited to policyholders' accounts compared to the returns on invested assets through asset-liability management and strategic and tactical asset allocation.

In addition, factors such as regulation, competition, interest rates, taxes, securities market conditions and general economic conditions affect the level of these liabilities. In some contracts, the Group shares experience on mortality, morbidity, persistency and investment results with its customers, which can offset the impact of these factors on profitability from those products. Details of specific actuarial policies and methods are set out in note 26.

(b) Claims liabilities under general insurance contracts

Provision is made at the end of the year for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the Group.

The estimated cost of claims includes direct expenses to be incurred in settling claims gross of the expected value of salvage and other recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of claims incurred but not reported ("IBNR") is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Group, where more information about the claim event is

- claims, compared with statistics from previous periods;
- changes in the legal environment;
- the effects of inflation;
- changes in the mix of business;
- the impact of large losses;
- movements in industry benchmarks;
- medical and technological developments.

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these the Group has regard to the claim circumstances as reported, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods.

Large claims impacting each relevant business class are generally assessed separately, being measured on a case by case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

Where possible the Group adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The projections given by the various methodologies also assist in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based on the gross provisions.

Details of specific assumptions used in deriving the outstanding claims liability at year end are detailed in note 27.

(c) Assets arising from reinsurance contracts

Assets arising from reinsurance contracts are also computed using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty and credit risk. Impairment is recognised where there is objective evidence that the Company may not receive amounts due to it and these amounts can be reliably measured.

(d) Prepaid tax losses

Refer to note 8 for an explanation on assumptions supporting the carrying value of prepaid tax assets.

TOWER LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2007

	Group		Company	
	2007 NZ\$000	2006 NZ\$000	2007 NZ\$000	2006 NZ\$000
3. Premium revenue				
Life insurance contract premiums	77,344	80,518	-	-
Less: Deposits recognised as an increase in policy liabilities	(6,740)	(11,489)	-	-
Life insurance contract premiums recognised as revenue	70,604	69,029	-	-
General insurance premiums	200,873	194,963	-	-
Health insurance premiums	117,174	99,848	-	-
	388,651	363,840	-	-
Less: Reinsurance ceded	(29,590)	(28,199)	-	-
Total net premium revenue	359,061	335,641	-	-
4. Investment revenue				
Interest income	34,443	29,725	157	122
Dividend income	19,622	37,025	-	-
Property income	109	1,975	-	-
Net fair value gains on financial assets at fair value through profit or loss	20,409	19,058	-	-
Total investment revenue	74,583	87,783	157	122
5. Fee and other revenue				
Investment and management fees	47,573	47,980	-	-
Other revenue	-	932	-	-
Total fee and other revenue	47,573	48,912	-	-
6. Claims expense				
Life insurance claims	114,044	88,311	-	-
Life investment contract payments	6,300	4,794	-	-
Total life claims and payments	120,344	93,105	-	-
Less: Withdrawals recognised as a decrease in policy liabilities	(48,272)	(21,815)	-	-
Life insurance claims recognised as expense	72,072	71,290	-	-
General insurance claims	119,279	120,441	-	-
Health insurance claims	65,816	58,240	-	-
	257,167	249,971	-	-
Less: Reinsurance proceeds received	(9,781)	(7,612)	-	-
Total net claims expense	247,386	242,359	-	-

TOWER LIMITED
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For the year ended 30 September 2007

	Group		Company	
	2007 NZ\$000	2006 NZ\$000	2007 NZ\$000	2006 NZ\$000
7. Other expenses				
(a) Management and sales expenses				
Life insurance contracts				
Policy acquisition expenses:				
Commission	5,237	4,112	-	-
Other acquisition expenses	6,740	4,931	-	-
Policy maintenance expenses:				
Commission	4,685	4,309	-	-
Other maintenance expenses	10,257	9,585	-	-
Investment management expenses	558	-	-	-
Total life insurance expenses	27,477	22,937	-	-
Life investment contracts				
Policy maintenance expenses:				
Commission	66	132	-	-
Total life investment expenses	66	132	-	-
Other non-life expenses	150,680	154,315	11,182	3,265
Total management and sales expenses	178,223	177,384	11,182	3,265
Included in total management and sales expenses are the following:				
Amortisation of deferred acquisition costs	11,765	17,252	-	-
Bad debts written off	688	186	-	-
Change in provision for doubtful debts	-	434	-	-
Depreciation:				
Office equipment and furniture	1,198	1,298	-	-
Motor vehicles	75	68	-	-
Computer hardware and software	736	1,744	-	-
Directors' fees	625	682	625	682
Donations	9	12	-	-
Employee benefits expense	61,405	54,909	-	-
Net foreign exchange loss / (gain)	2,957	(124)	-	(124)
Auditors remuneration				
Fees paid to parent auditors:				
Audit of financial statements	1,044	2,507	-	220
Audit of trust accounts	-	214	-	-
Other assurance related services	308	803	-	77

The audit fees for the year ended 30 September 2006 include those incurred by both the New Zealand and Australian businesses.

	NZ\$000	NZ\$000	NZ\$000	NZ\$000
(b) Financing costs				
Interest expense	5,574	17,425	-	1,558
Other costs	-	(2,167)	-	-
Total financing costs	5,574	15,258	-	1,558

TOWER LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2007

	Group		Company	
	2007 NZ\$000	2006 NZ\$000	2007 NZ\$000	2006 NZ\$000
8. Taxation				
(a) Current tax expense				
Analysis of taxation expense				
Current taxation	6,687	13,747	(1,100)	(1,643)
Deferred taxation	12,715	6,505	489	-
Under/(over) provided in prior years	196	3,393	-	-
Income tax expense for the year from continuing operations	19,598	23,645	(611)	(1,643)
Analysis of taxation expense - continuing and discontinuing operations				
Continuing operations	19,598	23,645	(611)	(1,643)
Discontinued operations - operating profit	(6,575)	40,385	-	-
Income tax expense for the year	13,023	64,030	(611)	(1,643)
The tax expense recognised can be reconciled to the accounting profit as follows:				
Profit before taxation				
Continuing operations	54,828	38,799	(11,025)	(4,701)
Discontinued operations	191,455	89,789	-	-
Total profit before taxation	246,283	128,588	(11,025)	(4,701)
Income tax at the current rate of 33% (2006: 33%)	81,273	42,434	(3,639)	(1,551)
Taxation effect of non-deductible expenses / non-assessable revenue:				
Life insurance companies permanent differences	(1,858)	24,508	-	-
Change in tax rates	(495)	(2,694)	-	-
Recognition of prior period current tax	196	3,393	-	-
Non life insurance companies permanent differences	3,662	(8,936)	3,028	-
Permanent differences arising from transactions with discontinued businesses	(69,755)	5,325	-	(92)
Income tax expense	13,023	64,030	(611)	(1,643)

The Group taxation expense includes both tax on shareholder profits and on returns attributed to policyholders.

(b) Non current tax asset

Prepaid life company tax

Under New Zealand life insurance tax rules the Group is required to pay tax in relation to its own profits and on behalf of policyholders. Tax paid by the Group on its taxable profits can be used to satisfy the policyholder tax liability. Due to tax on policyholder liabilities exceeding tax on Group taxable profits it has been necessary to prepay income tax resulting in a prepaid tax asset.

This prepaid tax can be used to satisfy tax liabilities on future Group taxable profits in excess of policyholder tax liabilities and is not affected by shareholder continuity requirements. The directors undertook an exercise last year to assess the appropriateness of the carrying value of the asset including the likely period over which the Group was expected to utilise this prepaid tax asset using the following assumptions:

- Growth in TOWER operating profits 3.0% to 7.0% (per annum)
- Investment returns 3.6% to 5.7% (net of taxation)
- Tax rate 33%, and from Financial Year beginning 1 October 2008, 30%.

The assumptions were consistent with those used in calculating the embedded values of the life companies and fair values of the non-life companies. This material was reviewed again this year to ensure that there were no significant changes to the outcome as a result of recent changes to the taxation of investments and the proposed changes to the taxation of the life insurance.

Based on the above assumptions the Directors estimated the prepaid asset would be recovered in full against future Group tax liabilities by 2013. The review performed this year confirms this is still likely to be the case. Changes in the above assumptions could impact on the timeframe in which the prepaid tax asset would be utilised by the Group. If the actual taxable income of the trading companies were below Directors' estimates by 20% the prepaid tax asset would be fully utilised by 2015.

While the Directors have considered the timeframe for realisation of the prepaid tax asset based on future profits from the Group's existing business activities, the timeframe for realising the prepaid tax asset can also be affected by future actions such as business acquisitions or further changes in tax legislation.

TOWER LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2007

8. Taxation (cont.)

(c) Deferred tax assets and liabilities

	Opening balance at 1 October	Assets / Liabilities held for sale	Charged/ (credited) to profit and loss	Group Charged to equity	Acquisition/ disposal of subsidiary	Exchange differences	Closing balance at 30 September
	NZ\$000	NZ\$000	NZ\$000	NZ\$000	NZ\$000	NZ\$000	NZ\$000
2007							
Movements in deferred taxation assets							
Deferred revenue liability	-	-	-	-	-	-	-
Provisions and accruals	3,087	-	1,733	-	-	-	4,820
Unrealised losses	17,439	-	(4,571)	-	-	-	12,868
Policyholder reserves	12,678	-	1,819	-	-	-	14,497
Tax losses	17,458	-	(5,573)	-	-	-	11,885
Other	2,617	-	653	-	-	-	3,270
Total deferred tax assets	53,279	-	(5,939)	-	-	-	47,340
Movements in deferred taxation liabilities							
Deferred costs	20,060	-	(3,929)	-	-	-	16,131
Fair value	-	-	-	-	-	-	-
Unrealised gains	23,876	-	3,265	-	-	-	27,141
Other	228	-	7,440	-	-	-	7,668
Total deferred taxation liabilities	44,164	-	6,776	-	-	-	50,940
2006							
Movements in deferred taxation assets							
Deferred revenue liability	24,152	(24,152)	-	-	-	-	-
Provisions and accruals	8,556	(4,961)	(515)	7	-	-	3,087
Unrealised losses	26,581	-	(9,142)	-	-	-	17,439
Policyholder reserves	17,933	(7,134)	1,879	-	-	-	12,678
Tax losses	7,474	-	9,984	-	-	-	17,458
Other	22,760	(16,615)	(3,528)	-	-	-	2,617
Total deferred tax assets	107,456	(52,862)	(1,322)	7	-	-	53,279
Movements in deferred taxation liabilities							
Deferred costs	44,556	(24,350)	(146)	-	-	-	20,060
Fair value	32,065	(32,065)	0	-	-	-	-
Unrealised gains	18,098	-	5,778	-	-	-	23,876
Other	592	83.75	(448)	-	-	-	228
Total deferred taxation liabilities	95,311	(56,331)	5,185	-	-	-	44,164

Utilisation of deferred tax assets

The Group has a deferred tax asset (DTA) of \$47.3m (2006: \$53.3m) and a deferred tax liability (DTL) of \$50.9m (2006: \$44.2m).

Included in the DTA are tax losses relating to the Group. These losses are available to carry forward provided the required continuity of shareholders is maintained. A benefit of \$11.9m attributable to the tax losses of \$36m has been recognised as an asset that is expected to be recoverable against future taxable income of the Group.

In May 2007 legislation was passed to reduce the company tax rate from 33% to 30%. This is effective for the Group from 1 October 2008.

The financial effect of the change in tax rate had an effect on deferred tax assets and liabilities and reduced net tax by \$495,079.

The parent company is part of a consolidated group for tax purposes.

Deferred tax on policy liabilities

Life insurance policy liabilities represent the net present value of estimated future cash flows and planned profit margins. Using the margin on services methodology, planned after tax profit margins are recognised in the income statement over the period services are provided to policyholders. With the adoption of NZ IFRS, a New Zealand life insurance industry issue has arisen as to whether or not any taxable temporary differences are implicitly embedded within life insurance policy liabilities and should be disclosed separately. At the time of preparing these financial statements this matter has not been resolved.

Because of the uncertainty surrounding this issue and the complexity involved in calculating any taxable temporary differences the Group has continued to measure and disclose life insurance policy liabilities in accordance with NZ IFRS 4, and consistent with prior years has not recognised any taxable temporary differences in these balances. If deemed there are taxable temporary differences embedded within policyholder liabilities and they can be reliably measured, it will represent a reclassification between life insurance policy liabilities and deferred tax liabilities rather than impact net profit, total assets or total liabilities of the Group.

TOWER LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2007

8. Taxation (cont.)

	Group	
	2007 NZ\$000	2006 NZ\$000
(d) Imputation Credit Account		
Opening balance	1,928	586
Attached to dividends received	10,797	17,037
Taxation paid	43	1,246
Other including transfers to Policyholder Credit Account	(3)	(16,941)
Closing balance	12,765	1,928

The Group Imputation Credit Account reflects the imputation credits held by the Parent as the representative member.

(e) Policyholder Credit Account

Opening balance	23,064	24,000
Previous year's policyholder tax liability	(12,983)	(20,936)
Transfer from Imputation Credit Account	-	20,000
Closing balance	10,081	23,064

The Policyholder Credit Account enables TOWER Life (NZ) Limited to satisfy the income tax liability on Policyholder income for the year. The company does this by electing to transfer imputation credits from the Imputation Credit Account to the Policyholder Credit Account subject to a number of tax rules.

The policyholder tax liability is based on actuarial calculations which are finalised after year end. The balance in the Policyholder Credit Account is available to meet any policyholder tax liability.

	Group		Company	
	2007 NZ\$000	2006 NZ\$000	2007 NZ\$000	2006 NZ\$000
9. Receivables				
Reinsurance recoveries receivable	10,602	9,840	-	-
Outstanding premiums and trade receivables	97,568	97,525	-	-
Unsettled investment sales	3,539	92	-	-
Unearned commission	8,718	9,394	-	-
Related party receivables	-	-	259,351	258,258
Other	15,986	6,949	-	1,175
Total receivables	136,413	123,800	259,351	259,433
Analysed as:				
Current	131,853	113,414	259,351	-
Non current	4,560	10,386	-	259,433
	136,413	123,800	259,351	259,433

10. Financial assets at fair value through profit or loss

Fixed interest securities	559,593	688,572	-	-
Equity securities	435,079	473,243	-	-
Property securities	135,409	121,466	-	-
Total financial assets at fair value through profit or loss	1,130,081	1,283,281	-	-
Analysed as:				
Current	433,041	353,405	-	-
Non current	697,040	929,876	-	-
	1,130,081	1,283,281	-	-

TOWER LIMITED
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11. Investment property

	Group		Company	
	2007	2006	2007	2006
At fair value	NZ\$000	NZ\$000	NZ\$000	NZ\$000
Opening balance at 1 October	2,114	21,395	-	-
Transferred to assets of discontinued group classified as held for sale	-	(19,221)	-	-
Net gain / (loss) from fair value adjustment	312	(60)	-	-
Other adjustments	(268)	-	-	-
Closing balance at 30 September	2,158	2,114	-	-

All properties directly held are held under freehold interests. Properties are held at fair value and valuations are performed annually by Rolle Associates. The last valuation was performed in September 2007.

The rental from directly held property amounted to \$0.2m during the period (2006: \$0.2m). Direct operating expenses recognised during the period amounted to \$0.1m (2006: \$0.1m).

12. Intangible assets

	Group			
	Goodwill	Software	PVIF ¹	Total
At 30 September 2005	NZ\$000	NZ\$000	NZ\$000	NZ\$000
Cost	160,013	7,717	-	167,730
Accumulated amortisation and impairment losses	-	(3,440)	-	(3,440)
Net book amount at 30 September 2005	160,013	4,277	-	164,290
Year ended 30 September 2006				
Acquisition of subsidiary	19,623	-	31,732	51,355
Transferred to assets of disposal group classified as held for sale	(149,083)	-	(29,565)	(178,648)
Additions at cost	258	307	-	565
Amortisation expense	-	(1,131)	(2,167)	(3,298)
Closing net book amount at 30 September 2006	30,811	3,453	-	34,264
At 30 September 2006				
Cost	30,811	8,024	-	38,835
Accumulated amortisation and impairment losses	-	(4,571)	-	(4,571)
Net book amount at 30 September 2006	30,811	3,453	-	34,264
Year ended 30 September 2007				
Additions at cost	-	637	-	637
Amortisation expense	-	(1,187)	-	(1,187)
Closing net book amount at 30 September 2007	30,811	2,903	-	33,714
At 30 September 2007				
Cost	30,811	8,661	-	39,472
Accumulated amortisation and impairment losses	-	(5,758)	-	(5,758)
Net book amount at 30 September 2007	30,811	2,903	-	33,714

¹ Present value of in-force business

TOWER LIMITED
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For the year ended 30 September 2007

12. Intangible assets (cont.)

Impairment testing for goodwill

The amount of goodwill is subject to annual impairment testing at the business unit level.

	TOWER Medical NZ\$000	TOWER Insurance NZ\$000	Total NZ\$000
2007			
Carrying amount of goodwill	13,067	17,744	30,811
2006			
Carrying amount of goodwill	13,067	17,744	30,811

Key financial indicators are considered when testing the Group's goodwill for impairment. These include cash flows, growth in written premium volumes and the net assets of the business units. Group business units' valuations have been conducted on assumptions consistent with actuarial assumptions in notes 26 and 27.

An analysis of these key indicators and other valuations performed for the current year confirm that at 30 September 2007 there is no impairment of the value of goodwill (2006: Nil).

13. Investments in subsidiaries

	Group		Company	
	2007 NZ\$000	2006 NZ\$000	2007 NZ\$000	2006 NZ\$000
Investments in controlled entities carried at cost	-	-	188,871	188,871

TOWER Limited holds its subsidiary companies under a holding company, TOWER Financial Services Group Limited. All subsidiary companies have a balance sheet date of 30 September, with the exception of National Pacific Insurance Limited which has a balance sheet date of 30 June. Principal trading subsidiary companies at 30 September 2007 and 2006 are as follows:

Name of Company	Holdings		Nature of Business
	2007	2006	
Incorporated in New Zealand			
TOWER Asset Management Limited	100%	100%	Investment management services
TOWER Corporation Holdings Limited	100%	100%	Management services
TOWER Finance Limited	100%	100%	Holding company for bank loan
TOWER Health & Life Limited	100%	100%	Term, disability and medical insurance
TOWER Insurance Limited	100%	100%	Fire and general insurance
TOWER Insurance (Fiji) Limited	100%	100%	Fire and general insurance
TOWER Insurance (Cook Islands) Limited	100%	100%	Fire and general insurance
TOWER Insurance (PNG) Limited	100%	100%	Fire and general insurance
National Pacific Insurance Limited	70%	70%	Fire and general insurance
TOWER Life Limited	100%	100%	Holding company
TOWER Life (N.Z.) Limited	100%	100%	Life insurance and superannuation management
TOWER Managed Funds Limited	100%	100%	Life insurance administration and personal superannuation management
TOWER Medical Insurance Limited	100%	100%	Medical insurance
TOWER Option Scheme Limited	100%	100%	Trustee for executive share options
Incorporated in Australia			
Beacon Investment Management Services Limited	-	100%	Investment fund distributor
PrefSure Holdings Ltd	-	100%	Life insurance
PrefSure Life Limited	-	100%	Life insurance
TOWER Australia Group Limited	-	100%	Holding company
TOWER Managed Funds Limited (Australia)	-	100%	Life insurance
TOWER Risk & Investment Management Limited	-	100%	Service company
TOWER Asset Management Limited (Australia)	-	100%	Investment management services
TOWER Australia Limited	-	100%	Life insurance and superannuation provider

On 20 November 2006, TOWER separated the Australian and New Zealand businesses of the Group. For more details refer to note 39.

On 31 March 2006 TOWER acquired 100% of the share capital of PrefSure Holdings Limited, a specialist life insurance business. For more details refer to note 40.

TOWER LIMITED
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For the year ended 30 September 2007

	Group		Company	
	2007 NZ\$000	2006 NZ\$000	2007 NZ\$000	2006 NZ\$000
14. Deferred acquisition costs for non-life insurance contracts				
Opening balance	53,275	133,700	-	-
Transferred to assets of disposal group classified as held for sale	-	(82,772)	-	-
Acquisition costs deferred during the period	10,211	19,599	-	-
Current period amortisation	(11,919)	(17,252)	-	-
Closing balance	51,567	53,275	-	-
Analysed as:				
Current	14,343	13,617	-	-
Non current	37,224	39,658	-	-
	51,567	53,275	-	-

15. Property, plant and equipment

	Group			Total NZ\$000
	Office equipment and furniture NZ\$000	Motor vehicles NZ\$000	Computer equipment NZ\$000	
Year ended 30 September 2006				
Opening net book amount	5,565	200	4,831	10,596
Transferred to assets of disposal group classified as held for sale	(1,958)	-	(1,934)	(3,892)
Additions	479	67	156	702
Disposals	(46)	(4)	(60)	(110)
Foreign exchange movements	125	-	-	125
Depreciation charge	(1,298)	(68)	(1,744)	(3,110)
Net book amount 30 September 2006	2,867	195	1,249	4,311
At 30 September 2006				
At cost	12,759	748	27,161	40,668
Accumulated depreciation	(9,892)	(553)	(25,912)	(36,357)
Net book amount 30 September 2006	2,867	195	1,249	4,311
Year ended 30 September 2007				
Opening net book amount	2,867	195	1,249	4,311
Additions	2,776	-	362	3,138
Disposals	(189)	-	7	(182)
Foreign exchange movements	117	-	-	117
Depreciation charge	(1,198)	(75)	(736)	(2,009)
Net book amount 30 September 2007	4,373	120	882	5,375
At 30 September 2007				
At cost	12,577	622	27,429	40,628
Accumulated depreciation	(8,270)	(476)	(26,507)	(35,253)
Net book amount 30 September 2007	4,307	146	922	5,375

The parent company does not hold any property, plant and equipment.

TOWER LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2007

	Group		Company	
	2007 NZ\$000	2006 NZ\$000	2007 NZ\$000	2006 NZ\$000
16. Payables				
Trade payables	37,395	43,432	-	-
Unsettled investment purchases	3,091	195,375	-	-
Other payables	27,641	12,837	1,834	1,477
Related party payables	-	-	581,230	4,188
Total payables	68,127	251,644	583,064	5,665
Analysed as:				
Current	59,774	251,633	582,722	5,665
Non current	8,353	11	342	-
	68,127	251,644	583,064	5,665

As at 30 September 2007 unsettled investment purchases were made up of a \$3.09m balance of the NZ brokers account for NZ equities (As at 30 September 2006 unsettled investment purchases were made up of \$195.3m contracted forward settlement of Government stock) The asset is recognised under fixed interest securities in note 10.

17. Provisions				
Employee benefits	7,368	7,600	-	-
Other	724	836	-	-
Total provisions	8,092	8,436	-	-
Analysed as:				
Current	8,092	8,284	-	-
Non current	-	152	-	-
	8,092	8,436	-	-

Movements in provisions

Movements in each class of provision other than employee benefits during the financial year are set out below:

Other provisions				
Opening balance at 1 October	836	6,324	-	391
Transfer to liabilities held for sale	-	(4,661)	-	-
Additions	-	71	-	-
Amount used	(112)	(39)	-	-
Reversal of unused amount	-	(859)	-	(391)
Closing balance at 30 September	724	836	-	-

TOWER LIMITED
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For the year ended 30 September 2007

	Group		Company	
	2007 NZ\$000	2006 NZ\$000	2007 NZ\$000	2006 NZ\$000
18. Interest bearing liabilities				
Overdraft	27	628	-	-
Bank loan	87,124	-	-	-
Capital bonds	-	124,337	-	-
Capital notes	-	73,469	-	-
Total interest bearing liabilities	87,151	198,434	-	-

Bank Loan

The above interest bearing liability is unsecured, and is subject to floating interest rates. The loan matures in August 2009.

Capital bonds

The capital bonds were non-cumulative debt securities of TOWER Finance Limited, and were convertible into TOWER Limited shares in certain circumstances. TOWER Limited provided a subordinated guarantee for these bonds. These bonds were repaid on 19 December 2006 as part of the separation of the Australia and New Zealand businesses.

Capital notes

The capital notes were non-cumulative debt securities of TOWER Finance Limited, and were convertible into TOWER Limited shares in certain circumstances. TOWER Limited provided a subordinated guarantee for these notes. These notes were repaid on 19 December 2006.

	Group		Company	
	2007 NZ\$000	2006 NZ\$000	2007 NZ\$000	2006 NZ\$000
19. Insurance liabilities				
Unearned premiums – general insurance	98,229	95,978	-	-
Unearned premiums – health and disability	15,260	14,662	-	-
Outstanding claims – general and health insurance	72,815	75,395	-	-
Outstanding claims – life	57,298	54,833	-	-
	243,602	240,868	-	-
Analysed as:				
Current	168,357	168,530	-	-
Non current	75,245	72,338	-	-
	243,602	240,868	-	-
20. Other liabilities				
FuturePlan Debenture	20,927	19,588	-	-
Other	201	2,339	-	-
	21,128	21,927	-	-
Analysed as:				
Current	201	2,339	-	-
Non current	20,927	19,588	-	-
	21,128	21,927	-	-

TOWER Life (NZ) Limited has issued a debenture to the TOWER FuturePlan. The debenture is maintained in a separate fund within TOWER Life (NZ) Limited. Interest on the debenture is directly linked to the investment earnings of this fund. The debenture has no fixed repayment term.

21. Contributed equity

	Group		Company	
	2007 NZ\$000	2006 NZ\$000	2007 NZ\$000	2006 NZ\$000
Ordinary share capital				
Fully paid	460,595	913,368	460,595	913,368
Movements in ordinary share capital				
Opening balance at 1 October	913,368	911,772	913,368	911,772
Shares issued during the year	1,227	1,596	1,227	1,596
Cancellation of TOWER shares	(454,000)	-	(454,000)	-
Closing balance at 30 September	460,595	913,368	460,595	913,368

TOWER LIMITED
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21. Contributed equity (cont.)

	Group		Company	
	2007	2006	2007	2006
Represented by:	Number of shares		Number of shares	
Ordinary shares (no par value)	<u>189,348,179</u>	<u>359,765,609</u>	<u>189,348,179</u>	<u>359,765,609</u>
Movements in ordinary share capital				
Opening balance	359,765,609	358,468,109	359,765,609	358,468,109
New issues	831,000	1,297,500	831,000	1,297,500
Cancelled shares on Demerger of TOWER Australia	(171,248,430)	-	(171,248,430)	-
Closing balance	<u>189,348,179</u>	<u>359,765,609</u>	<u>189,348,179</u>	<u>359,765,609</u>

All shares rank equally with one vote attached to each share.

	Group		Company	
	2007	2006	2007	2006
	NZ\$000	NZ\$000	NZ\$000	NZ\$000
22. Retained profits / (Accumulated Losses)				
Retained profits				
Opening balance at 1 October	(349,716)	(410,549)	(461,866)	(458,808)
Post acquisition retained earnings of liquidated subsidiaries	-	(2,661)	-	-
Net profit / (loss) for the year	232,632	63,494	(10,414)	(3,058)
Realisation of foreign currency translation reserve on liquidated subsidiaries recognised in equity	26,175	-	-	-
Other	(771)	-	-	-
Closing balance at 30 September	<u>(91,680)</u>	<u>(349,716)</u>	<u>(472,280)</u>	<u>(461,866)</u>

23. Reserves

Foreign currency translation reserve (FCTR)

Opening balance at 1 October	58,735	39,763	-	-
FCTR on TOWER Victoria Ltd taken to profit on liquidation	-	(529)	-	-
Currency translation differences arising during the year	(59,142)	19,501	-	-
Closing balance at 30 September	<u>(407)</u>	<u>58,735</u>	<u>-</u>	<u>-</u>

Exchange differences arising on translation of foreign controlled entities are taken to the FCTR as described in note 1(j). The reserve is recognised in profit and loss when the net investment is disposed of.

Share based payments reserve

Opening balance at 1 October	3,069	2,459	3,069	2,459
Movement in share option reserve during the year	(397)	610	(397)	610
Closing balance at 30 September	<u>2,672</u>	<u>3,069</u>	<u>2,672</u>	<u>3,069</u>

The share based payments reserve is used to recognise the fair value of options issued but not exercised.

Asset revaluation reserve

Opening balance at 1 October	-	328	-	-
Revaluation during the year	-	(328)	-	-
Closing balance at 30 September	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

The revaluation reserve recognises revaluations of assets that are reported directly through equity rather than through the income statement.

Separation reserve

Opening balance at 1 October	-	-	-	-
Movement during the year	(113,000)	-	(113,000)	-
Closing balance at 30 September	<u>(113,000)</u>	<u>-</u>	<u>(113,000)</u>	<u>-</u>

The separation reserve was created at the time of the demerger in November 2006 and will be carried forward indefinitely as a non equity style reserve.

Total reserves	<u>(110,735)</u>	<u>61,804</u>	<u>(110,328)</u>	<u>3,069</u>
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TOWER LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2007

24. Distributions to shareholders

No dividends were paid during the year ended 30 September 2007 or 30 September 2006.

25. Segmental reporting

Description of segments

TOWER Health & Life includes all health, life and disability insurance in New Zealand.
TOWER General Insurance includes all general insurance in New Zealand and Pacific Islands.
TOWER Investments includes all wealth management services in New Zealand.
Other includes head office expenses, financing costs and eliminations, and TOWER Australia.

Business Segments	TOWER Health & Life	TOWER General Insurance	TOWER Investments	Other (Holding companies, Australia and eliminations)	Total
	NZ\$000	NZ\$000	NZ\$000	NZ\$000	NZ\$000
2007					
Profit from operations					
Profit from continuing operations	22,664	12,336	7,562	(7,960)	34,602
Profit from discontinued operations	(363)	(143)	(301)	198,837	198,030
Profit for the year	22,301	12,193	7,261	190,877	232,632
Revenue					
Revenue - external	221,123	197,337	51,211	11,546	481,217
Revenue - internal	-	-	9,428	(9,428)	-
Total revenue	221,123	197,337	60,639	2,118	481,217
Total assets	1,083,705	333,896	53,915	74,677	1,546,193
Total liabilities	(937,060)	(225,313)	(33,741)	(88,182)	(1,284,296)
Acquisition of property, plant and equipment, intangibles and other non current assets	316	815	2,006	-	3,137
Depreciation and amortisation	1,219	1,215	747	15	3,196
2006					
Profit from operations					
Profit from continuing operations	19,192	7,925	6,784	(19,811)	14,090
Profit from discontinued operations	-	-	-	49,404	49,404
Profit for the year	19,192	7,925	6,784	29,593	63,494
Revenue					
Revenue - external	231,332	188,997	50,773	1,234	472,336
Revenue - internal	2,128	-	9,913	(12,041)	-
Total revenue	233,460	188,997	60,686	(10,807)	472,336
Total assets	1,314,834	313,567	55,475	4,378,262	6,062,138
Total liabilities	1,188,774	218,808	42,791	3,982,392	5,432,765
Acquisition of property, plant and equipment, intangibles and other non current assets	-	12,640	502	1	13,142
Depreciation and amortisation	5,542	12,783	3,143	25	21,493
Geographical Segments	New Zealand and Pacific	Australia	Total		
	NZ\$000	NZ\$000	NZ\$000		
2007					
Revenue - external	479,475	1,742	481,217		
Total assets	1,499,143	47,050	1,546,193		
Acquisition of property, plant and equipment, intangibles and other non current assets	3,137	-	3,137		
2006					
Revenue - external	470,168	2,168	472,336		
Total assets	1,645,354	4,416,784	6,062,138		
Acquisition of property, plant and equipment, intangibles and other non current assets	20,608	-	20,608		

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	Group		Company	
	2007 NZ\$000	2006 NZ\$000	2007 NZ\$000	2006 NZ\$000
26. Life insurance business				
(a) Policy liabilities				
Life insurance contract liabilities				
<i>Value of policy liabilities – Projection Method</i>				
Future policy benefits	731,637	837,069	-	-
Future bonuses	177,952	155,666	-	-
Future expenses	129,825	137,284	-	-
Reinsurance	11,092	(21,597)	-	-
Future charges for acquisition expenses	-	-	-	-
Future profit margins	152,368	171,568	-	-
Future premiums	(549,010)	(605,770)	-	-
	<u>653,864</u>	<u>674,220</u>	<u>-</u>	<u>-</u>
<i>Value of policy liabilities – Accumulation Method</i>				
Future policy benefits	50,320	82,362	-	-
Future charges for acquisition expenses	-	-	-	-
	<u>50,320</u>	<u>82,362</u>	<u>-</u>	<u>-</u>
Unvested policy benefits	23,114	22,903	-	-
Net policy liabilities - life insurance contracts	<u>727,298</u>	<u>779,486</u>	<u>-</u>	<u>-</u>
Reconciliation of movements in life insurance contract policy liabilities				
Gross life insurance liabilities at 1 October	811,725	1,260,627	-	-
Transferred to liabilities of disposal group classified as held for sale	-	(443,918)	-	-
Acquired insurance contract liabilities	-	-	-	-
Increase/ (decrease) in liabilities ceded under reinsurance	(10,353)	9,444	-	-
Increase / (decrease) in life insurance contract liabilities recognised in the income statement	(16,168)	(6,119)	-	-
Deposits recognised as an increase in policy liabilities	5,953	10,575	-	-
Withdrawals recognised as a decrease in policy liabilities	(41,972)	(17,021)	-	-
Other adjustments including foreign exchange	-	(1,864)	-	-
Gross life insurance liabilities at 30 September	<u>749,185</u>	<u>811,725</u>	<u>-</u>	<u>-</u>
Life investment contract liabilities				
<i>Value of policy liabilities – Projection Method</i>				
Future policy benefits	-	-	-	-
Reinsurance	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Value of policy liabilities – Accumulation Method</i>				
Future policy benefits	45,095	46,425	-	-
	<u>45,095</u>	<u>46,425</u>	<u>-</u>	<u>-</u>
Net policy liabilities - life investment contracts	<u>45,095</u>	<u>46,425</u>	<u>-</u>	<u>-</u>

Liabilities ceded under reinsurance and life insurance contract liabilities recognised in the income statement for 2006 were restated to achieve consistency with disclosure in the current year.

TOWER LIMITED
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For the year ended 30 September 2007

	Group		Company	
	2007 NZ\$000	2006 NZ\$000	2007 NZ\$000	2006 NZ\$000
26. Life insurance business (cont.)				
(a) Policy liabilities (cont.)				
Reconciliation of movements in investment contract policy liabilities				
Gross life investment contract liabilities at 1 October	46,425	2,320,503	-	-
Transferred to liabilities of disposal group classified as held for sale	-	(2,273,722)	-	-
Increase / (decrease) in life investment contract liabilities recognised in the income statement	4,183	3,524	-	-
Deposits recognised as an increase in policy liabilities	788	914	-	-
Withdrawals recognised as a decrease in policy liabilities	(6,301)	(4,794)	-	-
Gross life investment contract liabilities at 30 September	45,095	46,425	-	-
Total gross policy liabilities	794,280	858,150	-	-
Liabilities ceded under reinsurance				
At 1 October	32,240	39,819	-	-
Transferred to assets of disposal group classified as held for sale	-	(17,250)	-	-
Movement in income statement	(10,353)	9,671	-	-
At 30 September	21,887	32,240	-	-
Net policy liabilities	772,393	825,910	-	-
Analysed as:				
Payable within 12 months	-	-	-	-
Payable in more than 12 months	772,393	825,910	-	-
	772,393	825,910	-	-
(b) Analysis of life insurance and life investment contract results				
Life insurance contracts				
Planned profit margins	16,642	14,449	-	-
Experience profits/(losses)	(1,786)	(2,038)	-	-
Capitalised loss/(reversal)	(82)	2	-	-
Other movement	(363)	25,302	-	-
Investment earnings on assets in excess of policy liabilities of life companies	9,252	2,753	-	-
Operating profit after tax attributable to shareholders arising from the life insurance contracts	23,663	40,468	-	-
Life investment contracts				
Planned profit margins	240	250	-	-
Experience profits/(losses)	191	(30)	-	-
Operating profit after tax attributable to shareholders arising from life investment contracts	431	220	-	-

TOWER LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2007

26. Life insurance business (cont.)

(c) Solvency requirements of life funds

The minimum equity required to be retained to meet solvency requirements over and above the policy liabilities for each of the life insurance companies in the Group is shown below. The shareholder equity retained in each of the life insurance companies exceeds these minimum requirements (see note 26(d)(iv)).

New Zealand

		TOWER Life (NZ)		TOWER Life		TOWER Health & Life	
		2007	2006	2007	2006	2007	2006
		NZ\$000	NZ\$000	NZ\$000	NZ\$000	NZ\$000	NZ\$000
Solvency requirement	A	799,321	834,140	1,561	369,139	86,746	86,903
Represented by:							
Policy liabilities		757,862	804,921	-	8,905	(8,583)	(10,819)
Other liabilities		41,459	28,667	1,561	2,140	9,503	15,459
Solvency reserve	B	-	552	-	358,094	85,826	82,263
Solvency requirement		799,321	834,140	1,561	369,139	86,746	86,903
Assets available to meet solvency reserve	C	56,510	56,085	415,815	411,399	98,267	93,480
Solvency reserve	B	-	552	-	358,094	85,826	82,263
Excess assets above required		56,510	55,533	415,815	53,305	12,441	11,217
Required solvency reserve %	(B/(A-B))x100	0.0%	0.1%	0.0%	3242.2%	9327.5%	1772.7%
Coverage of required solvency reserve	C/B	n/a	101.5	n/a	1.1	1.1	1.1

TOWER LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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26. Life insurance business (cont.)

(d) Summary of significant actuarial methods and assumptions - life insurance

The effective date of the policy liabilities and solvency reserves calculation is 30 September 2007. The Chief Actuary, Herwig Raubal, FIAA, FNZSA has calculated policy liabilities for TOWER Life (NZ) Ltd and TOWER Health & Life Ltd. The actuary is satisfied as to the accuracy of the data from which the policy liabilities have been determined.

This note summarises the assumptions made and the methods adopted for the calculations of Policy Liabilities and Solvency Requirements.

(i) Policy liabilities

Policy liabilities for life insurance business have been determined in accordance with Professional Standard No.3 "Determination of Life Insurance Policy Liabilities" issued by the New Zealand Society of Actuaries for TOWER Life (NZ) Ltd and TOWER Health & Life Ltd. This standard requires that policy liabilities be calculated on the basis of best estimate assumptions and in a way that allows for the release of planned margins as services are provided to policyholders.

Valuation of policy liabilities

Policy liabilities comprise the amount required to pay the expected future benefits and expenses after receiving expected future premiums and investment earnings.

The value of policy liabilities may also include a component for profit margins on existing business that will be earned as services are provided to policy owners over the time the relevant policies are held with the company.

The company incurs costs in selling new policies. Any costs not recovered by specific charges received from the policy owner at inception are normally deferred. New business selling costs (or acquisition costs) related to the acquisition of new business are deferred as long as the underlying policies are expected to be profitable. Where costs are deferred, they are recovered from premiums or charges receivable in the future.

Methods used to value policy liabilities

(i) Projection method

The projection method uses expected cash flows (premiums, investment income, redemptions or benefit payments, expenses and profits) to establish the value of policy liabilities. The value of expected future premiums is deducted from the value of expected benefit and expense payments to arrive at the obligation to policy owners.

(ii) Accumulation method

Under the accumulation method for risk policies the policy liability is the sum of the unearned premiums, outstanding claims plus an allowance for claims incurred but not yet reported. For investment policies, the policy liability is determined as the policy account balance including accrued interest to the balance date, plus investment fluctuation reserves subject to a minimum of the current surrender value.

Methods used

Where the policy liability is determined by the projection method, actuarial standards require profit to be related to one or more financially measurable indicators of the provision of service (or related income) called "profit carriers". The profit carriers adopted for the major product groups are shown in the table below:

MAJOR PRODUCT GROUPS	METHOD	PROFIT CARRIERS (for business valued using projection method)
Traditional participating	Projection	Cost of supportable bonuses
Traditional non-participating, renewal and level term and mortgage repayment insurance	Projection	Expected death claims
Annuities	Projection	Expected annuity payments
Individual lump sum life insurance risk (life, temporary and permanent disability and trauma) and disability income protection insurance	Projection	Expected claims
Non-participating investment account	Accumulation	
Investment linked	Accumulation	
Group risk insurances and renewable insurances	Accumulation	

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26. Life insurance business (cont.)

(d) Summary of significant actuarial methods and assumptions - life insurance (cont.)

(ii) Disclosure of assumptions (cont.)

Effect of changes in actuarial assumptions during the reporting period

The liabilities for life insurance contracts include the value of future profit margins that are to be released over future reporting periods. The impact of assumption changes on non participating business are absorbed by the future profit margins, provided sufficient future margins exist, such that there is no change in the contract liability in the current period. For participating business, the impact of assumption changes is absorbed by the value of future supportable bonus. The current period contract liability is impacted by the change in cost of current period supportable bonus.

The impact of the assumption changes in the current period on future profit margins in respect of life insurance contracts (excluding new business contracts which are measured using assumptions at the valuation date) are shown below.

Where the value of future profit margins are insufficient to absorb the assumption changes, the resulting losses are recognised in the current year via a change in the contract liability. These losses may be reversed in subsequent periods should experience improve.

The life insurance contract liability calculations include the use of published market yields, such as government bond rates. The changes in these yields do not represent actuarial assumption changes and they impact both life insurance contract liabilities and asset values as at the balance sheet date.

The impact of assumption changes for life insurance contracts made during the year is shown below.

	Change in future shareholder profit margins	Change in next Financial Year's Shareholder Planned Profit	Change in Current Period Contract Liability	Change in Current Period Shareholder Profit
	NZ\$000	NZ\$000	NZ\$000	NZ\$000
Assumption change				
Non-market related economic assumptions	(17,353)	(398)	(85)	85
Mortality and Morbidity	(3,104)	(211)	-	-
Discontinuances	(192)	(40)	(44)	9
Expenses	(4,228)	(231)	(64)	13
Other	3,032	280	(2,061)	427

Where the value of future profit margins are insufficient to absorb the assumption changes, the resulting losses are recognised in the current year via a change in the contract liability. These losses may be reversed in subsequent periods should experience improve.

There were no material changes in the life insurance contract liabilities due to assumption changes for the year ending 30 September 2007.

Variable	Impact of movement in underlying variable
Expense risk	An increase in the level or inflationary growth of expenses over assumed levels will decrease profit and shareholder equity.
Interest rate risk	Depending on the profile of the investment portfolio, the investment income of the Group will decrease as interest rates decrease. This may be offset to an extent by changes in the market value of fixed interest investments. The impact on profit and shareholder equity depends on the relative profiles of assets and liabilities, to the extent that these are not matched.
Mortality rates	For insurance contracts providing death benefits, greater mortality rates would lead to higher levels of claims, increasing associated claims cost and therefore reducing profit and shareholder equity.
Morbidity rates	The cost of health-related claims depends on both the incidence of policyholders becoming temporarily or totally and permanently disabled and, in the case of temporary disablement, the duration which they remain temporarily disabled. Higher than expected incidence and duration would be likely to increase claim costs, reducing profit and shareholders equity.
Discontinuance	The impact of the discontinuance rate assumption depends on a range of factors including the type of contract, the surrender value basis (where applicable) and the duration in force. For example, an increase in discontinuance rates at earlier durations of life insurance contracts usually has a negative effect on profit and shareholder equity. However, due to the interplay between the factors, there is not always an adverse outcome from an increase in discontinuance rates.
Market risk	For benefits which are not contractually linked to the underlying assets, the Group is exposed to market risk.

(iii) Sensitivity analysis

The liabilities included in the reported results are calculated using certain assumptions about key variables as disclosed above. Sensitivity analysis is conducted to assess the impact of actual experience being different to that assumed in the calculation of liabilities. Movements in any key variable will impact the profit and shareholder equity of the Group. The tables below describe how a change in actual experience relative to that expected will effect next financial year's expected shareholder profit.

		Change in next financial year's shareholder profit
		Net of Reinsurance
		NZ\$000
New Zealand		
Variable	Movement	
Mortality	Worsening by 10%	(653)
Morbidity Claims Costs	Worsening by 10%	(305)
Annuitant Mortality	Worsening by 10%	(117)
Lapses and Surrenders	Worsening by 10%	(431)
Renewal Expenses	Worsening by 10%	(891)

(iv) Solvency requirements

Separate to the policy liabilities recognised in the Balance Sheet, the life insurance companies maintain sufficient capital to meet solvency requirements. These are amounts required to provide protection against the impact of fluctuations and unexpected adverse circumstances on the life insurance companies.

The methodology and bases for determining the Solvency Requirement are in accordance with the requirements of "Professional Standard No. 5 Solvency Reserving for Life Insurance Business" issued by the New Zealand Society of Actuaries.

TOWER LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2007

26. Life insurance business (cont.)

(d) Summary of significant actuarial methods and assumptions - life insurance (cont.)

(v) Life insurance risk

The life insurance business of the Group involves a number of non-financial risks concerned with the pricing, acceptance and management of the mortality, morbidity and longevity risks accepted from policyholders. Financial risks involving the Group are in note 28.

Insurance risks are controlled through the use of underwriting procedures and adequate premium rates and policy charges, all of which are approved by the Chief Actuary. Tight controls are also maintained over claims management practices to ensure the correct and timely payment of insurance claims.

Underwriting management procedures

Underwriting is managed by a separate department with underwriting limits in place to enforce appropriate risk selection criteria. The Group provides appropriate training and development of underwriting staff. Individual policies carrying insurance risk are underwritten on their merits and are generally not issued without having been examined and underwritten individually. Group risk insurance policies are underwritten on the merits of an employee group as a whole, subject to certain limits for individual members.

Claim management procedures

Claims are managed through a dedicated claims team, with appropriate training and development of staff to ensure procedures are adhered to. Claims are managed to ensure timely and correct payment in accordance with policy conditions. Claims experience is reviewed regularly and appropriate actuarial reserves are established.

Reinsurance management procedures

The company holds appropriate reinsurance arrangements to limit exposure to individual and catastrophe risks. All reinsurance arrangements are approved by the Chief Actuary.

Terms and conditions of life insurance contracts

The nature of the terms of the insurance contracts written by the Group is such that certain external variables can be identified on which related cash flows for claim payments depend. The tables below provide an overview of the key variables upon which the amount of related cash flows are dependent.

Type of contract	Details of contract workings	Nature of compensation for claims	Key variables affecting future cash flows
Non-participating life insurance contracts with fixed and guaranteed terms (Term Life and Disability including renewable term)	Guaranteed benefits paid on death, permanent and temporary disablement or maturity that are fixed and guaranteed and not at the discretion of the issuer.	Benefits, defined by the insurance contract are determined by the contract and not directly affected by the performance of underlying assets or the performance of the contracts as whole.	Mortality, morbidity, lapses, expenses and market earnings on assets backing the liabilities
Life annuity contracts	These policies provide a guaranteed regular income for the life of the insured for a initial single premium.	The amount of the guaranteed regular income is set at inception of the policy including any indexation.	Longevity, benefit inflation, expenses and market earnings on assets backing the liabilities
Traditional life insurance contracts with discretionary participating benefits (endowment and whole of life)	These policies include a clearly defined initial guaranteed sum assured that is payable on death. The guarantee amount is increased throughout the duration of the policy by the addition of bonuses annually that once added are not removed. An additional (terminal) bonus is payable on claims paid as a result of death or maturity. Terminal bonus amounts are not guaranteed.	Benefits arising from the discretionary participation feature are based on the performance of a specified pool of contracts or a specified type of contract. Operating profit arising from these contracts is allocated between the policyholders and shareholders. The amount allocated to policyholders is held as an unvested policy liability until it is distributed to specific policyholders via bonuses.	Mortality, morbidity, lapses, expenses and market earnings on assets backing the liabilities
Investment account contracts with discretionary participating features	The gross value of the premiums received is invested in the investment account with fees and premiums for any associated insurance cover being deducted from the account balance. Interest is credited regularly.	The payment of the account balance is generally guaranteed, although it may be subject to certain penalties on early termination. On certain contracts withdrawals can be deferred over limited time periods.	Fees, lapses, expenses and market earnings on assets backing the liabilities

vi) Concentration of insurance risk

The Group aims to maintain a portfolio of policyholders with a broad spread of insurance risk types, ages, sexes, occupation classes and geographical locations for the individual and group risk business. The Group uses reinsurance to limit the insurance risk exposure for any one individual. The group risk business unit offers insurance in respect of groups of employees. The Group is exposed to a greater risk of loss from events affecting a location where groups of insured employees work. The Group has purchased catastrophe reinsurance to limit the exposure from any one group event.

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	Group		Company	
	2007 NZ\$000	2006 NZ\$000	2007 NZ\$000	2006 NZ\$000
27. General and health insurance business				
(a) Analysis of general and health insurance operating result				
Premium revenue	318,047	294,811	-	-
Outward reinsurance expense	(16,757)	(16,449)	-	-
Net premium income	301,290	278,362	-	-
Claims expense	184,934	178,681	-	-
Reinsurance recoveries	(1,794)	(3,309)	-	-
Net claims incurred	183,140	175,372	-	-
Acquisition costs	31,558	38,673	-	-
Other underwriting expenses	71,926	60,181	-	-
Underwriting result	14,666	4,136	-	-
Investment income from general insurance business:				
Investment revenue	19,491	16,462	-	-
Investment expenses	210	-	-	-
Investment income	19,701	16,462	-	-
Operating surplus before income tax	34,367	20,598	-	-
Analysis of general and health underwriting result				
Profit generated from reinsurance	-	-	-	-
Profit from direct insurance	34,367	20,598	-	-

	2007			2006		
	Risks borne in current year	Risks borne in prior years	Total	Risks borne in current year	Risks borne in prior years	Total
	NZ\$000	NZ\$000	NZ\$000	NZ\$000	NZ\$000	NZ\$000
Gross claims expense						
Direct claims - undiscounted	182,293	7,723	190,016	182,481	(2,518)	179,963
Discount	(274)	(4,808)	(5,082)	(109)	(1,173)	(1,282)
Gross claims expense	182,019	2,915	184,934	182,372	(3,691)	178,681
Reinsurance and other recoveries						
Reinsurance and other recoveries revenue - undiscounted	(2,573)	848	(1,725)	(5,272)	1,900	(3,372)
Discount	58	(75)	(17)	11	52	63
Reinsurance recoveries	(2,515)	773	(1,742)	(5,261)	1,952	(3,309)
Net claims incurred	179,504	3,688	183,191	177,111	(1,739)	175,372

Current year amounts relates to risks borne in the current financial year. Prior period amounts relate to a reassessment of the risks borne in all previous financial years.

(c) Outstanding claims

	Group		Company	
	2007 NZ\$000	2006 NZ\$000	2007 NZ\$000	2006 NZ\$000
Central estimate of expected present value of future payments for claims incurred	82,345	80,510	-	-
Risk margin	5,978	5,540	-	-
Claims handling costs	4,529	4,230	-	-
Discount	(20,037)	(14,885)	-	-
Outstanding claims liability	72,815	75,395	-	-

Assumptions adopted in calculation of general and health insurance provisions

Estimates of the outstanding claims as at 30 September 2007 have been carried out by the following Actuaries

General Insurance – P. Davies, B.Bus.Sc, FIA, FNZSA, AIA, AIAA.

Health Insurance - H Raubal, BEc, FIAA, FNZSA

The actuarial assessments are in accordance with the standards of the Society of Actuaries of New Zealand and the Institute of Actuaries of Australia. The Actuaries were satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims

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27. General and health insurance business (Cont.)

(c) Outstanding claims (cont.)

The following assumptions have been made in determining net outstanding claims liabilities:

	2007	2006
- Inflation rates varied from	1.5% to 6%	0.0% to 6.0%
- Discount rates varied from	4% to 6.5%	4.5% to 5.4%
- Claims handling expense ratio	1% to 6.8%	5.3%
- Risk margin	<u>15% to 20%</u>	<u>15% to 20%</u>

The weighted average expected term to settlement of outstanding claims based on historical trends is:

- Short tail claims	0.3 years	0.3 years
- Long tail claims in the Pacific Islands	1.6 to 2.9 years	1.6 to 2.6 years
- Australian long tail claims	6.9 to 8.1 years	6.9 to 7.6 years
- Inwards reinsurance	in excess of 10 years	in excess of 10 years

Inflation Rate

Insurance costs are subject to inflationary pressures. Inflation assumptions for all general insurance classes of business are based on current economic indicators.

For motor, property and health classes, for example, claim costs are related to the inflationary pressures of the materials and goods insured as well as labour costs to effect repairs. These costs are expected to increase at a level between appropriate Consumer Price Index (CPI) indices and wage inflation.

Discount rate

General insurance outstanding claims liabilities are discounted at a rate equivalent to that inherent in a portfolio of riskless fixed interest securities with coupon and redemption cash flows exactly matching the projected inflation claim cash flows.

General insurance outstanding claims liabilities are discounted to present value using a risk free rate based on ten year government bond rate in New Zealand.

Claims handling expense

The estimate of outstanding claims liabilities incorporates an allowance for the future cost of administering the claims. This allowance is determined after analysing historical claim related expenses incurred by the classes of business.

Risk margin

The overall risk margin is determined allowing for diversification between classes of business and the relative uncertainty of the outstanding claims estimate for each class.

The assumptions regarding uncertainty for each class were applied to the net central estimates and the results were aggregated allowing for diversification in order to arrive at an overall provision which is intended to have a 75% probability of sufficiency.

Reconciliation of movements in discounted outstanding claims liability

	2007			2006		
	Gross NZ\$000	Reinsurance NZ\$000	Net NZ\$000	Gross NZ\$000	Reinsurance NZ\$000	Net NZ\$000
Balance brought forward	83,312	(7,917)	75,395	75,176	(7,343)	67,833
Effect of change in foreign exchange rates	(3,791)	1,180	(2,611)	3,490	(1,409)	2,081
Effect of changes in assumptions	381	6	387	257	21	278
Increase in claims incurred/ (recoveries) anticipated over year	(161)	-	(161)	121,275	(3,310)	117,965
Incurred claims recognised in the income statement	119,279	(1,794)	117,485	200,198	(12,041)	188,157
Claim payment / (recoveries) during the year	(120,509)	2,830	(117,679)	(116,886)	4,124	(112,762)
Balance carried forward	<u>78,511</u>	<u>(5,695)</u>	<u>72,815</u>	<u>83,312</u>	<u>(7,917)</u>	<u>75,395</u>

Reconciliation of undiscounted claims to liability for outstanding claims

Outstanding claims undiscounted	52,398	(1,515)	50,883	49,149	(1,683)	47,466
Discount	(20,573)	537	(20,037)	(15,491)	606	(14,885)
Outstanding claims	<u>31,825</u>	<u>(979)</u>	<u>30,846</u>	<u>33,658</u>	<u>(1,077)</u>	<u>32,581</u>
Short tail outstanding claims			41,969			42,814
Total outstanding claims as per balance sheet			<u>72,815</u>			<u>75,395</u>

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2007

27. General and health insurance business (Cont.)

(c) Outstanding claims (cont.)

Sensitivity analysis

The impact of change in key variables on the outstanding claims liability is set out below. Each change has been calculated in isolation to other changes.

Variable	Movement	Impact NZ\$'000
Claim settlement period	+ 0.5 years	(366)
	- 0.5 years	366
Claims expenses ratio	increase of 1%	(75)
	decrease of 1%	75
Inflation rates	increase of 1%	(1,081)
	decrease of 1%	942
Discount rates	increase of 1%	1,027
	decrease of 1%	(1,196)

(d) Risk management policies and procedures

The financial condition and operations of the general insurance business are affected by a number of key risks including insurance risk, interest rate risk, currency risk, market risk, financial risk, compliance risk, fiscal risk and operational risk. Not

(i) Objectives in managing risks arising from insurance contracts and policies for mitigating those risks

The risk management activities include prudent underwriting, pricing, and management of risk, together with claims management, reserving and investment management. The objective of these disciplines is to enhance the financial performance of the insurance operations.

The key policies in place to mitigate risk arising from writing general insurance contracts include:

- comprehensive management information systems and actuarial models using historical information to calculate premiums and monitor claims;
- monitoring natural disasters such as earthquakes, floods, storms and other catastrophes using models;
- the use of reinsurance to limit the Group's exposure.

(ii) Terms and conditions of insurance contracts that have a material effect on amount timing and uncertainty of cash flows

The term and conditions attaching to insurance contracts affect the level of insurance risk accepted by the Group. Certain policies within the health insurance business have premium payback clauses that allow for the return of premiums after claim payments. These liabilities are matched with suitable assets.

(iii) Concentration of insurance risk

Risk	Source of concentration	Risk Management measures
An accumulation of risks arising from a natural peril	Insured property concentrations	Accumulation risk modeling, reinsurance protection
A large property loss	Fire or collapse affecting one building or a group of adjacent buildings	Maximum acceptance limits, property risk grading, reinsurance protection
Inclusion of multiple classes of casualty business in the one event	Response by a multitude of the Group's policies to the one event, for example a construction liability and professional indemnity policy	Purchase of reinsurance clash protection

(iv) Development of claims

The following table shows the development of net undiscounted outstanding claims relative to the current estimate of ultimate claims costs for the five most recent years.

Ultimate claims cost estimate	Incident year						Total NZ\$000
	Prior NZ\$000	2003 NZ\$000	2004 NZ\$000	2005 NZ\$000	2006 NZ\$000	2007 NZ\$000	
At end of accident year	-	134,591	153,683	168,815	181,194	189,458	
One year later	-	133,561	152,802	167,592	178,809	-	
Two years later	-	132,968	152,634	167,126	-	-	
Three years later	-	132,480	152,251	-	-	-	
Four years later	-	132,216	-	-	-	-	
Current estimate of ultimate claims cost	-	132,216	152,251	167,126	178,809	189,458	
Cumulative payments	-	(131,267)	(150,663)	(165,834)	(175,210)	(145,129)	
Undiscounted central estimate	30,904	949	1,588	1,292	3,599	44,329	82,661
Discount to present value	(19,168)	(56)	(270)	(57)	(219)	(583)	(20,353)
Discounted central estimate	11,736	893	1,318	1,235	3,380	43,746	62,308
Claims handling expense							4,530
Risk margin							5,978
Net outstanding claims liabilities							72,816
Reinsurance recoveries on outstanding claims liabilities and other recoveries							5,696
Gross outstanding claims liabilities							78,512

(e) Liability adequacy test

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The liability adequacy test has identified a surplus for each portfolio of contracts that are subject to broadly similar risks and are managed together as a single portfolio.

The risk margin adopted in performing the liability adequacy test is 75%. The outstanding claims liability is set at a level that is appropriate and sustainable to cover the Group's claims obligations after having regard to the prevailing market environment and prudent industry practice.

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27. General and health insurance business (Cont.)

(f) Insurer financial strength rating

TOWER Insurance Limited has an insurer financial strength rating of "A-" (Excellent) issued by AM TOWER Medical Insurance Limited is not required to obtain a credit rating.

(g) Reinsurance programme

Reinsurance programmes are structured to adequately protect the general insurance companies' solvency and capital positions. The adequacy of reinsurance cover is based on assessing TOWER Limited's exposure in the worst possible scenario. The worst possible scenario for TOWER Limited is a major Wellington earthquake. Each year, as part of setting the coming year's reinsurance premium, comprehensive modelling of the event probability and amount of the Group's exposure is undertaken.

28. Risk management and financial instrument information

The financial condition and operating results of the Group are affected by a number of key financial and non-financial risks. Financial risks include market risk, financing risk and liquidity risk. The non-financial risks are insurance risk, compliance risk and operational risk. The Group's objectives and policies in respect of non-financial risk are in notes 26 and 27, while the managing of financial risk is set out in the remainder of this section.

TOWER's objective is to satisfactorily manage these risks in line with the Group's risk management policy and guidance which are approved by the Board. Various procedures are put in place to control and mitigate the risks faced by the Group depending on the nature of the risk. The consolidated entity's exposure to all risks is monitored by the Risk Executive Manager and this exposure is reported monthly to the executive management and the Group Audit and Compliance Committee.

The Board has delegated to the Group Audit and Compliance Committee the responsibility to review the effectiveness and efficiency of management processes, group risk management and internal financial controls and systems as part of their duties.

Financial risks are generally monitored and controlled by selecting appropriate assets to back policy liabilities. The assets are regularly monitored to ensure that there are no material asset and liability mismatching issues and other risks such as liquidity risk and credit risk are maintained within acceptable limits. For those life insurance and life investment contracts where the benefits paid are directly impacted by the value of the underlying assets, the Group is exposed to the risk of future decreased asset management fees as a result of a decline in assets under management.

The Board has delegated to the Group Investment Committee the responsibility for:

- reviewing investment policy for TOWER shareholder and policyholder funds;
- reviewing the risk management policy and statements in respect of investment management, including the derivative policy;
- considering the establishment, adjustment or deletion of limits and counter-party approvals, and the scope of financial instruments to be used in the management of TOWER's investments;
- reviewing the appointment of external investment managers;
- monitoring compliance with investment policies and client mandates.

Compliance risk and operational risk are both monitored by internal committees and report regularly to the Board.

(a) Market risk

Market risk is the risk of change in the fair value of financial instruments from fluctuations in the foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk), whether such change in price is caused by factors specific to an individual financial instrument or its issuer or factors affecting all financial instruments traded in a market.

The Group Investment Committee determines the levels of market risk it accepts by reviewing:

- what constitutes market risk for the Group
- the basis used to fair value financial assets and liabilities
- asset allocation and portfolio limit structures
- diversification benchmarks by type of instrument and geographical areas; and
- sets out reporting of market risk exposures and the monitoring thereof.

(i) Currency risk

Currency risk is the risk of loss resulting from changes in exchange rates.

TOWER's principal transactions are carried out in New Zealand Dollars and its exposure to foreign exchange risk arises primarily with respect to the Pacific Island General Insurance business, this does not form a significant part of the Group's operations.

TOWER generally elects to not hedge the capital invested in overseas entities, thereby accepting the foreign currency translation risk on invested capital.

The Group Investment Committee sets limits for the management of currency risk arising from its investments based on prudent international asset management practice. Regular reviews are conducted to ensure that these limits are adhered to. In accordance with this policy, TOWER does not hedge the currency risk arising from translation of the financial statements of foreign operations.

TOWER LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2007

28. Risk management and financial instrument information (cont)

(a) Market risk (cont)

(i) Currency risk (cont)

Foreign currency denominated asset and liabilities:

Assets and liabilities not hedged

	Group		
	Assets NZ\$000	Liabilities NZ\$000	Net Exposure NZ\$000
As at 30 September 2007			
Exposure to Australian dollars	47,050	13,522	33,528
Exposure to other currencies	91,235	62,129	29,106
As at 30 September 2006			
Exposure to Australian dollars	222,839	-	222,839
Exposure to other currencies	84,836	-	84,836

(ii) Interest rate risk

Interest rate risk is the risk that the value/future value cash flows of a financial instrument will fluctuate because of changes in interest rates.

The TOWER Board is responsible for the management of the interest risk arising from external borrowings. As at 30 September 2007 and 30 September 2006 there were no interest rate swaps in place in relation to external borrowings.

TOWER manages interest risk arising from its interest bearing investments in accordance with Group Investment Committee approved policies.

General insurance

Interest rate risk arises in general insurance to the extent that there is a mismatch between the fixed interest portfolios used to back the outstanding claims liabilities and those outstanding claims. The interest rate risk is managed by matching the duration profiles of the investment assets and the outstanding claims liabilities.

Life insurance

Interest rate risk and market risk arise in life insurance to the extent that there is a mismatch between the policyholder liabilities and the assets backing those liabilities. The impact of these mismatches impact current period operating profits. The primary areas of mismatch for TOWER's life insurance business are:

- For non-participating life insurance contracts, the mismatch between the risk free discount rates used in the policy liability calculations and the backing asset values.
- For a portion of the life investment contract business, the mismatch between the value of the financial instrument liabilities (including the discount rates used in their calculation, if applicable) and the backing asset values.

Interest rate and other market risks are managed by the Group through a strategic asset allocation policy and an investment management policy that has regard to policyholder expectations and risks and to target surplus for both capital adequacy and solvency as advised by the Chief Actuary.

The following tables provide information on the financial assets and financial liabilities which are subject to interest rate changes. They show the weighted average effective interest rate. The weighted average interest rates are based on carrying amounts and rates applicable at balance date, net of the impact of derivatives. Where applicable, the rates are net of directly attributable transactions costs.

Maturity analysis of financial assets and liabilities – Group

	Effective Interest Rate	0-12 months NZ\$000	12-24 months NZ\$000	24-36 months NZ\$000	36-48 months NZ\$000	48-60 months NZ\$000	Over 60 months NZ\$000	Total NZ\$000
2007								
Fixed interest securities	7%	433,041	14,623	6,030	5,295	13,009	87,595	559,593
Capital bonds		-	-	-	-	-	-	-
Capital notes		-	-	-	-	-	-	-
Other borrowings	9%	27	-	87,124	-	-	-	87,151
Total liabilities		27	-	87,124	-	-	-	87,151
2006								
Fixed interest securities	5%	353,405	6,330	10,969	3,778	110	313,980	688,572
Capital bonds	9%	124,337	-	-	-	-	-	124,337
Capital notes	9%	73,469	-	-	-	-	-	73,469
Other borrowings	10%	628	-	-	-	-	-	628
Total liabilities		198,434	-	-	-	-	-	198,434

All other financial assets and liabilities are non-interest bearing.

TOWER LIMITED
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For the year ended 30 September 2007

28. Risk management and financial instrument information (cont)

(a) Market risk (cont)

(iii) Fair value of financial instruments

All financial assets and liabilities, other than investments in subsidiaries and the bonds and notes in the prior year, are recorded at values which approximate fair value. The bonds and notes were repaid in full in the current year.

Capital bonds were carried on the balance sheet as at 30 September 2006 at \$124.3 million, being the cost of \$125 million less establishment costs that are amortised over the life of the bond. The fair value of the capital bonds was \$127.5 million. Capital notes were carried on the balance sheet as at 30 September 2006 at \$73.5 million, being the cost of \$75 million less unamortised establishment costs. The fair value of the capital notes was \$76.5 million.

(b) Credit risk

Credit risk is the risk of loss that arises from a counter party failing to meet their contractual commitment in full and on time, or from losses arising from the change in value of a trading financial instrument as a result in changes in credit risk on that instrument.

The maximum exposure to credit risk at balance date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the balance sheet.

The only significant concentrations of credit risk are outlined below.

	Group		Company	
	2007	2006	2007	2006
	Carrying value NZ\$000	Carrying value NZ\$000	Carrying value NZ\$000	Carrying value NZ\$000
Australian government	-	30,545	-	-
New Zealand government	69,360	246,355	-	-
Other government	5,834	-	-	-
Receivables from subsidiaries	-	-	259,351	258,258

Additionally, TOWER has normal clearing house exposures associated with dealings through recognised exchanges and financial intermediaries.

(c) Financing and liquidity risk

Financing and liquidity risk is the risk that the Group will not be able to refinance debt obligations or may not be able to raise cash when required and on acceptable terms.

The Group treasury function maintains sufficient liquid assets to cover obligations and unforeseen expenses from the Group.

(d) Fair values

Fair value is the amount for which an asset could be exchanged, or a liability settles, between knowledgeable, willing parties in an arm's length transaction.

All assets shown on the Balance Sheet are at fair value unless otherwise noted.

(e) Derivative financial instruments

The Group utilises derivative financial instruments to reduce investment risk. Specifically, derivatives are used to achieve cost effective short-term reweightings of asset class, sector and security exposures and to hedge portfolios when a market is subject to significant short-term risk.

Derivative financial instruments used include interest rate swaps.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value.

TOWER LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2007

	Group		Company	
	2007 NZ\$000	2006 NZ\$000	2007 NZ\$000	2006 NZ\$000
29. Operating leases				
As lessee				
Rent paid under non-cancellable operating leases during the year	3,686	6,189	-	-
Rent payable under non-cancellable operating leases to the end of the lease terms are:				
– Not later than one year	4,216	5,324	-	-
– Later than one year and not later than five years	13,039	18,032	-	-
– Later than five years	2,873	7,693	-	-
	20,128	31,049	-	-

Operating lease payments represent the future rentals payable for office space under current leases. Leases are for an average of seven years with rental rates reviewed every three years.

30. Cash and cash equivalents

Cash at bank and in hand	17,397	13,958	2,304	2,018
Deposits at call	46,840	39,526	-	-
Total cash and cash equivalents	64,237	53,484	2,304	2,018

The effective interest rate for deposits at call is 8.25% (2005: 5.4%) and primarily mature within 3 months of balance date.

(a) Reconciliation to cash at the end of the year

The above figures are reconciled to cash at the end of the financial year as shown in the Statement of Cash Flows as follows:

Balances as above	64,237	53,484	2,304	2,018
Bank overdrafts (note 18)	(27)	(628)	-	-
Balances per Statements of Cash Flow	64,210	52,856	2,304	2,018

TOWER LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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30. Cash and cash equivalents (cont.)

(b) Reconciliation of profit for the period to net cash flows from operating activities

	Group		Company	
	2007 NZ\$000	2006 NZ\$000	2007 NZ\$000	2006 NZ\$000
Profit / (loss) from continuing operations	35,230	15,154	(10,414)	(3,058)
Add/(less) non cash items				
Depreciation	2,009	1,037	-	-
Amortisation of intangibles	1,187	1,130	-	-
Change in life insurance and life investment contract liabilities	(50,782)	(214,265)	-	-
Unrealised (gain)/loss on investments	(32,139)	101,089	-	-
Realised (gain)/loss on controlled entities	-	-	-	-
Share based payments expense	(397)	610	(54)	610
(Increase)/decrease in deferred tax	24,600	13,169	489	(251)
Intercompany expenses	-	-	10,060	5,385
	<u>(20,292)</u>	<u>(82,074)</u>	<u>82</u>	<u>2,686</u>
Add/(less) movements in working capital relating to operating activities				
(Increase)/decrease in receivables	(7,529)	(52,466)	1,175	(1,175)
Increase/(decrease) in payables	7,893	103,073	14	293
(Increase)/decrease in taxation	(17,556)	(3,399)	(1,099)	(1,391)
	<u>(17,192)</u>	<u>47,209</u>	<u>90</u>	<u>(2,273)</u>
Add / (less) other items classified as investing / financing activities				
Interest on borrowings	2,151	-	-	-
Net cash inflows/(outflows) from operating activities	<u>(35,333)</u>	<u>(34,866)</u>	<u>171</u>	<u>413</u>

31. Contingent liabilities

Taxation - over paid tax

In February 2004, the Inland Revenue Department (IRD) refunded TOWER \$30 million in respect of over paid tax. The IRD now believes it ought not to have paid this refund and have written to TOWER disputing TOWER's entitlement to this refund. The IRD has not issued demand for payment. TOWER has received strong legal advice that it is fully entitled to the refund.

TOWER has commenced IRD's formal dispute resolution process in relation to the refund paid plus potential use of money interest and penalty amounts. The IRD has agreed that no tax in respect of this matter will be payable until this process is complete which is expected to take up to two years. In the unlikely event that TOWER is unsuccessful, the \$30 million could be repaid to the IRD. Such a payment would reinstate a tax asset representing prepaid taxes that would be available to offset future tax liabilities.

Taxation - use of money interest

The IRD has advised TOWER it is considering TOWER's entitlement to use of money interest paid to TOWER for the income tax years 1996 to 2005 in respect of some prepaid assets at that time. The amount of interest involved is NZ\$12m. TOWER has received independent advice supporting the position taken by TOWER and will defend its position if the matter is formally challenged by the IRD.

TOWER LIMITED
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	Group		Company	
	2007 NZ\$000	2006 NZ\$000	2007 NZ\$000	2006 NZ\$000
32. Capital commitments				
Commitments for capital expenditure not otherwise provided for in the financial statements:				
Computer, software and support services				
Within one year	-	614	-	-
Property, plant and equipment				
Within one year	-	2,513	-	-

33. Share based payments

The company has five executive share option schemes. Each is equity settled and has differing conditions which are set out in the tables below. The exercise prices are set at the average of the share price for the 5 days before grant date. Subject to the discretion of the Board, options are forfeited if an employee leaves the Group before the options vest.

The fair value for options was estimated by using a binomial pricing model. The main inputs to the model were as follows:

Terms of share schemes	Tranche A	Tranche B	Tranche C	Tranche D	Tranche E
Exercise price (in NZ\$)	\$1.40	\$2.13	\$2.13	\$2.55	\$2.03
Grant date	31-Mar-04	9-Aug-05	9-Aug-05	4-Apr-06	1-Oct-06
Vesting date	1-Apr-07	9-Aug-08	9-Aug-09	3-Apr-09	3-Apr-09
Expiry date	31-Mar-10	9-Aug-11	9-Aug-12	4-Apr-12	4-Apr-12
Expected volatility	20%	20%	20%	20%	20%
Risk free rate	5.71%	5.71%	5.71%	5.71%	5.71%
Fair value of the plan (\$000)	353	305	325	702	1,421
Amount expensed during the year (\$000)	-	(11)	(18)	104	404

Expected volatility was determined by looking at the performance of the share price over a number of periods ranging from 6 months to two years adjusted to remove significant impacts arising from one off events.

The expected life is based on best estimates of management allowing for non-transferability, exercise restrictions and behavioural considerations.

Details of the share options outstanding as at 30 September were as follows:

	Number of options					Weighted average exercise price
	Tranche A	Tranche B	Tranche C	Tranche D	Tranche E	
2007						
Outstanding at start of year	3,599,000	2,671,500	1,350,000	5,800,000	-	\$2.07
Granted	-	-	-	-	3,000,000	\$2.03
Forfeited	-	(400,000)	(400,000)	(900,000)	-	\$2.35
Exercised	(831,000)	-	-	-	-	\$1.40
Lapsed	(905,828)	(1,771,500)	(450,000)	(4,000,000)	-	\$0.00
Outstanding at the end of the year	1,862,172	500,000	500,000	900,000	3,000,000	\$2.07
Exercisable at the end of the year	1,862,172	-	-	-	-	\$1.40
2006						
Outstanding at start of year	6,401,000	3,096,500	1,775,000	-	-	\$1.62
Granted	-	-	-	6,100,000	-	\$2.55
Forfeited	(1,270,500)	-	-	-	-	\$1.23
Exercised	(1,297,500)	-	-	-	-	\$1.23
Lapsed	(234,000)	(425,000)	(425,000)	(300,000)	-	\$0.00
Outstanding at the end of the year	3,599,000	2,671,500	1,350,000	5,800,000	-	\$2.07
Exercisable at the end of the year	-	-	-	-	-	-

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34. Transactions with related parties

The majority of TOWER's related party transactions result solely from normal dealings of entities in their capacity as a financial services provider or asset manager and are therefore not recorded in this note. Shares and other financial securities have been traded between TOWER, its subsidiaries, unit trusts and superannuation funds where TOWER or its subsidiaries have an interest. Trade amounts owing between related parties are payable under normal commercial terms.

(a) Subsidiaries and associates

During the year there have been transactions between TOWER Limited, its subsidiaries and associates which have been conducted on a commercial basis. The transactions from the Parent's perspective comprise:

	Company	
	2007 NZ\$'000	2006 NZ\$'000
Operating costs	1,979	2,852

For balances outstanding at year end refer to Notes 9 and 16. These balances are non-interest bearing.

(b) Key management personnel compensation

The remuneration of directors and other members of key management during the year was as follows:

	Group		Company	
	2007 NZ\$'000	2006 NZ\$'000	2007 NZ\$'000	2006 NZ\$'000
Salaries and other short-term employee benefits	3,884	6,092	935	2,936
Termination benefits	356	417	-	417
Post-employment benefits	-	153	-	47
	<u>4,240</u>	<u>6,662</u>	<u>935</u>	<u>3,400</u>

Information regarding individual directors and executives compensation is provided in the Corporate Governance section of the Annual Report.

c) Loans to key management personnel

There have been no loans made to directors of the Company and other key management personnel of the Group, including their personally related parties. (2006: nil).

d) Other transactions with key management personnel

Key management also hold various policies and accounts with TOWER Group companies. These are operated in the normal course of business on normal customer terms.

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35. Disclosures on asset restrictions and managed assets

Restrictions on assets

Investments and other assets held in each of the life insurance companies can only be used to meet the liabilities and expenses of that company, to acquire investments to further the business of the company or as distributions to shareholders. Distributions may be made to shareholders only when regulatory capital requirements are met and sufficient equity remains for the ongoing operation of the business.

Managed assets

TOWER conducts investment and other fiduciary activities that result in the holding or placing of assets on behalf of individuals, managed funds, trusts, retirement benefit plans and other institutions. These assets are not the property of TOWER and accordingly are not included in these financial statements.

The value of assets subject to funds management and other fiduciary activities were:

	Group	
	2007 NZ\$000	2006 NZ\$000
Superannuation funds	817,867	1,070,901
Unit trust and group investment funds	3,379,520	3,171,768
	4,197,387	4,242,669
Assets per Balance sheet	1,546,193	6,062,138
Total Assets Under Management/Advice	5,743,580	10,304,807

Arrangements are in place to ensure that the asset management activities of these funds continue to be managed separately from TOWER's financial services and life insurance operations.

36. Guaranteed returns on funds invested – life insurance companies

TOWER or its subsidiaries guarantee capital contributed by policyholders together with any declared dividends for the following funds. At balance date the policy liabilities of these funds were:

	2007 NZ\$000	2006 NZ\$000
TOWER Life (NZ)		
Capital Preservation Fund	30,304	63,298
Capital Protected Plan	10,649	11,443
VITAL	1,957	2,050
Total	42,910	76,791

37. Investment linked and non-investment linked business of life insurance companies

	Group			
	Investment linked	Non- investment linked	Investment linked	Non- investment linked
	2007 NZ\$000	2007 NZ\$000	2006 NZ\$000	2006 NZ\$000
Investment assets	45,095	880,142	46,425	1,279,215
Other assets	-	30,853	-	83,843
Policyholder liabilities	(45,095)	(744,465)	(46,425)	(785,995)
Other liabilities	-	(32,652)	-	(38,963)
Net assets	-	133,878	-	538,100
Retained earnings	-	(95,606)	-	(166,921)
Net premium revenue	-	57,770	-	57,279
Investment revenue	5,994	46,994	4,343	93,065
Net claims expense	-	(65,518)	-	(67,083)
Other operating expenses	(478)	(22,912)	(496)	(32,841)
Change in policyholder liabilities	(4,183)	4,702	(3,524)	7,349
Operating surplus/(deficit) before taxation	1,333	21,037	323	57,769
Taxation expense/(credit)	(902)	(3,949)	(103)	(17,301)
Operating surplus/(deficit) after taxation	431	17,087	220	40,468

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38. Earnings per share

	Group	
	2007	2006
Basic Earning per Share	NZ\$000	NZ\$000
Earnings per Share has been calculated as follows:		
Profit from continuing business (after minority earnings)	34,602	14,090
Profit from discontinued business	198,030	49,404
Profit after minority earnings	232,632	63,494
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	211,176,400	359,582,910
	NZ cents	NZ cents
Basic earnings per share	110.16	17.66
Basic earnings per share on continuing activities	16.39	3.92
Basic earnings per share on discontinued activities	93.77	13.74

Earnings per share for 30 September 2007 and 30 September 2006 is based on the weighted average number of ordinary shares outstanding during the year.

Alternative Earnings per Share

Alternative Earnings per Share has been calculated as follows:

Fully paid equivalent shares	189,348,179	188,517,179
	NZ cents	NZ cents
Alternative earnings per share on continuing activities	18.27	7.47

Alternative earnings per share for 30 September 2007 is based on 189.3 million fully paid ordinary shares on issue at the end of the year, which represents the number of shares on issue immediately after the demerger adjusted for the movement in the shareholding during the year.

Alternative earnings per share for 30 September 2006 have been calculated the same way, including 188.5 million share on issued immediately after the de-merger to facilitate comparison.

39. Discontinued operations

	Group	
	2007	2006
Profit from discontinued operations comprises	NZ\$000	NZ\$000
Operating profit / (loss) from TOWER Australia	(4,560)	49,404
Profit on sale from TOWER Australia	202,590	-
	198,030	49,404

(a) Separation of Australian and New Zealand Businesses

On 8 August 2006, TOWER announced its plan to separate the Australian and New Zealand businesses of the Group. TOWER Limited remains listed on the Australian and New Zealand stock exchanges and continues to own the New Zealand and Pacific Island businesses. The Australian business is now called TOWER Australia Group Limited (TAL) and is listed on the Australian Stock Exchange. The following transactions occurred for the separation:

- all 234.3 million shares in TAL were transferred to TOWER shareholders on a pro-rata basis of 0.6511 TAL shares for every TOWER share held; and
- in return for that transfer, cancelled 0.4760 TOWER shares for every TOWER share held as a capital reduction.

TAL then issued TAL shareholders entitlements to buy a further 100 million TAL shares at A\$1.60 each. TAL shareholders then received 0.4269 entitlements for every TAL share held. The additional TAL shares issued pursuant to the Entitlements Offer raised A\$160 million for TAL.

The Proposal was approved at a meeting of shareholders on 6 November 2006. Final court approval was received on 10 November 2006. The separation was effective on 20 November 2006.

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39. Discontinued operations (cont.)

As a result of the separation, the Australian business has been disclosed as a discontinued operation on the face of the Consolidated Income Statement for the year ended 30 September 2007 and 2006. Assets of the Australian business are classified in total as 'Assets of disposal group classified as held for sale' and liabilities are classified as 'Liabilities of disposal group classified as held for sale' in the consolidated Balance Sheet as at 30 September 2006.

	2007	2006
	NZ\$000	NZ\$000
Revenue	216,568	746,439
Expenses	(223,516)	(656,650)
Pre tax operating profit / (loss)	(6,948)	89,789
Tax on operating profit / (loss)	2,388	(40,385)
After tax operating profit /(loss)	(4,560)	49,404
Gain on sale	198,403	-
Tax on discontinued operations	4,187	-
Profit from discontinued operations	198,030	49,404

Cash flows generated by discontinued operations:

Net operating cash flows	(13,009)	(74,270)
Investing activities	(71,288)	(151,182)
Financing activities	(20,533)	113,427
Net cash flows	(104,830)	(112,025)

Cash and cash equivalents of discontinued operations is reconciled as follows:

	2007	2006
	NZ\$000	NZ\$000
Opening cash balance (transferred to discontinued operations)	389,357	480,897
Other cash balances from TOWER Ltd (transferred to discontinued operations)	30,727	-
	420,084	480,897
Movement in cash for the period TOWER Australia	(74,103)	(112,025)
Movement in cash for the period TOWER Limited	(30,727)	-
Total Net Cashflows	(104,830)	(112,025)
Cash transferred to TOWER Australia	(319,168)	-
FX movement on cash balances	3,914	20,485
Closing cash of discontinued operations	-	389,357

The carrying amount of assets and liabilities as at 30 September are:

	NZ\$000	NZ\$000
Assets		
Cash and cash equivalents	-	389,357
Receivables	-	188,687
Financial assets at fair value through profit or loss	3,148	3,282,741
Deferred acquisition costs	-	77,614
Other assets	-	3,677
Property, plant and equipment	-	4,960
Assets arising from reinsurance contracts	-	189,382
Deferred tax asset	-	58,978
Intangible assets	-	176,300
Total assets classified as held for sale	3,148	4,371,696
Liabilities		
Payables	-	220,092
Current tax liabilities	-	17,273
Provisions	-	19,910
Interest bearing liabilities	-	114,325
Insurance liabilities	-	59,015
Deferred tax liabilities	-	74,904
Other liabilities	342	1,902
Deferred revenue liability	-	115,115
Life insurance contract liabilities	-	683,347
Life investment contract liabilities	-	2,487,053
Total liabilities classified as held for sale	342	3,792,936
Net assets of disposal group	2,806	578,760

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39. Discontinued operations (cont.)

(b) Disposal of subsidiaries

On 20 November 2006 TOWER Limited disposed of the following controlled entities:

Andric Pty Limited
TOWER Holdings (Australia) Limited

On 30 March 2006 TOWER Limited disposed of the following controlled entities:

TOWER Adelaide Pty Limited
Lymquoir Pty Limited
TOWER Life Properties Pty Limited
TOWER Victoria Pty Limited
TOWER Direct Pty Limited
AdviserBLUE Pty Limited
TOWER eCommerce Pty Limited
TOWER Group Network (Australia) Pty Limited
TOWER Staff Superannuation Limited
FAI Life Limited
TOWER Rollover Services Pty Limited
Pacific Developments Pty Limited

All of these controlled entities were dormant at the time of disposal.

On the date of sale the value of each of the companies sold was \$1.00. Consideration received on the sale was \$1.00 per company.

The profit and net cashflow of these companies was not material in the current or prior periods.

(c) Notes Relating to Discontinued Operations
Prior Year Note (Provisions)

Stamp duty

Opening balance at 1 October

Liabilities held for sale

Closing balance at 30 September

	Group	
	2007	2006
	NZ\$000	NZ\$000
Opening balance at 1 October	-	5,752
Liabilities held for sale	-	(5,752)
Closing balance at 30 September	-	-

This provision relates to stamp duty liabilities in Australia which may arise once the resolution of various issues with the stamp duty authorities have been reached.

Prior Year Note (Solvency requirements of life funds)
Australia

		TOWER Australia		PrefSure Life	
		2007	2006	2007	2006
		NZ\$000	NZ\$000	NZ\$000	NZ\$000
Solvency requirement	A	n/a	2,806,563	n/a	229,775
Represented by:					
Policyholder liabilities ¹		n/a	2,578,257	n/a	148,095
Other liabilities		n/a	150,423	n/a	74,423
Solvency reserve	B	n/a	77,883	n/a	7,257
Solvency requirement		n/a	2,806,563	n/a	229,775
Assets available to meet					
solvency reserve	C	n/a	224,425	n/a	23,315
Solvency reserve	B	n/a	77,883	n/a	7,257
Excess assets above required		n/a	146,542	n/a	16,058
Required solvency reserve %	(B/(A-B))x100	n/a	2.9%	n/a	3.3%
Coverage of required solvency reserve	C/B	n/a	2.9	n/a	3.2

¹ Minimum termination value and not policy liabilities has been used for TOWER Australia and PrefSure Life.

(d) Summary of significant actuarial methods and assumptions - life insurance

The Appointed Actuary, Megan Beer, FIAA has calculated policyholder liabilities for the Australian life companies TOWER Australia Limited and PrefSure Life Limited.

(i) Policy liabilities

Policy liabilities for life insurance business have been determined in accordance with Actuarial Standard 1.04 issued by the Life Insurance Actuarial Standards Board for TOWER Australia and PrefSure Life.

Prior Year Note (Life insurance business (cont.))

(d) Summary of significant actuarial methods and assumptions - life insurance

(i) Policy liabilities

MAJOR PRODUCT GROUPS	METHOD	PROFIT CARRIERS (for business valued using projection method)
Both Australia and New Zealand Traditional participating	Projection	Cost of supportable bonuses
Traditional non-participating, renewal and level term and mortgage repayment insurance	Projection	Expected death claims
Annuities	Projection	Expected annuity payments
Individual lump sum life insurance risk (life, temporary and permanent disability and trauma) and disability income protection	Projection	Expected claims
Australia Participating investment account	Projection	Cost of supportable bonuses
Group risk insurances	Accumulation	
Group salary continuance – open claims	Projection	-

(d) Summary of significant actuarial methods and assumptions - life insurance (cont.)

(ii) Disclosure of assumptions

The following table summarises the key assumptions used in the calculation of policyholder liabilities, together with notes on any significant changes in the assumption.

REQUIRED ASSUMPTION	BASIS OF ASSUMPTION (By product Group)	SIGNIFICANT CHANGES
Discount rates for participating business	As the value of benefits is contractually linked to the performance of assets, a discount rate based on the market return on the asset backing policy liabilities is used. The discount rate assumed in calculating policyholder liabilities was derived from the expected long term average rates of return for the relevant asset pools backing this business, based on a neutral asset mix for each pool. Discount rates assumed are net of taxation and investment	The discount rates used are as follows: Australia September 2007 3.8% to 5.5% September 2006 3.0% to 6.1%
Discount rates for non-participating life insurance contracts	Risk free discount rates have been adopted for life insurance contracts where the benefits are not contractually linked to the performance of backing asset pools. The risk free discount rates have been determined based on government bond rates, or the inter bank mid swap rates, depending on the nature structure and term of the contract liabilities.	The discount rates used are as follows: Australia September 2007 5.6% to 6.2% September 2006 5.3% to 5.8%
Inflation	A specific allowance for each country reviewed annually. Benefit indexation is before allowance for the proportion of policyholders who take up	Benefit Indexation Australia September 2007 3.4% September 2006 2.8%
Future expenses	Future maintenance expenses have been set based on experience analyses conducted by the various companies as well as the actuaries' expectations of future expense levels, with an allowance for future inflation. Future investment expenses have been set based on the actual costs of the Company's investment managers.	None
Rates of taxation	Rates of taxation have been assumed to remain at current levels.	None
Mortality – risk products	Australia: Standard mortality tables, primarily IA90-92. These are adjusted for company experience.	Australia: No change
Mortality – annuities	Standard mortality tables (Australia use IM/IF80) adjusted for company experience.	None

Prior Year Note (Life insurance business (cont.))

Disability – lump sum	Based upon recent company and reinsurer experience adjusting for different product definitions. Some wholesale schemes use specific company experience.	None
Disability income	Standard morbidity tables (Australia use IAD89-93) adjusted for company experience. Specific company experience is used for certain wholesale schemes.	None
Discontinuances	Discontinuance rates have been assumed to be consistent with the experience of recent years. Assumed discontinuance rates vary by sub-grouping within a class and vary according to the length of time tranches of business have been in force and other relevant factors.	For TOWER Australia, there were some structural changes to the assumptions to better reflect the dynamics of the business but the change to the overall level of assumed discontinuances.
Surrender values	Surrender values are based on current practice.	None
Rates of future supportable participating benefits	Assumed future supportable bonus rates included in policyholder liabilities were set such that the present value of policyholder liabilities, allowing for the shareholders' right to participate in distributions, equals the value of assets supporting the business.	None
	Distributions are split between policyholders and shareholders with the valuation allowing for shareholders to share in distributions. The rate of shareholder participation assumed is generally at the maximum allowable of 25% of the value of bonuses distributed to participating policyholders subject to policy conditions.	None
	Additional policy bonuses will emerge from the assets representing policyholders' unvested benefits.	None

(iii) Sensitivity analysis

Sensitivity analysis is conducted to quantify the exposure to risk of change in the key underlying variables. The valuations included in the reported results are calculated based on certain assumptions about these variables as disclosed above. The movement in any key variable will impact the profit and shareholder equity of the Group. The table below describes how the change in each assumption will effect the insurance liabilities and show an analysis of the sensitivity of the profit/(loss) and equity to changes in assumptions.

		Increase in Life Insurance Contract Net of Reinsurance NZ\$000	Decrease in Shareholder Net of Reinsurance NZ\$000
Australia			
Variable	Movement		
Mortality	Worsening by 10%	4,016	2,753
Morbidity Claims Costs	Worsening by 10%	23,996	10,763
Annuity Mortality	Worsening by 10%	3,113	2,179
Lapses and Surrenders	Worsening by 10%	1,474	993
Renewal Expenses	Worsening by 10%	3,714	2,880

(iv) Solvency requirements

Separate to the policy liabilities recognised in the Balance Sheet, the life insurance companies maintain sufficient capital to meet solvency requirements. These are required to provide protection against the impact of fluctuations and unexpected adverse circumstances on the life insurance companies.

The methodology and bases for determining the Solvency Requirement is in accordance with the requirements of AS2.04 "Solvency Standard" issued by the Life Insurance Actuarial Standards Board of Australia for TOWER Australia and PrefSure Life Limited.

(d) Summary of significant actuarial methods and assumptions - life insurance (cont.)

(v) Life insurance risk

The life insurance business of the Group involves a number of non-financial risks concerned with the pricing, acceptance and management of the mortality, morbidity and financial risks accepted from policyholders. Financial risks involving the Group are in note 28.

Insurance risks are controlled through the use of underwriting procedures and adequate premium rates and policy charges, all of which are approved by the Appointing Authority. Tight controls are also maintained over claims management practices to ensure the correct and timely payment of insurance claims.

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40. Acquisition

There were no acquisitions in 2007.

On 31 March 2006 TOWER acquired 100% of the share capital of PrefSure Holdings Limited (PrefSure), a specialist life insurance business.

The acquired business contributed revenues of NZ\$115.0 million and net profit of NZ\$8.3 million (excluding integration and amortisation costs) to the Group during the six months from 1 April 2006 to 30 September 2006.

Details of net assets acquired and goodwill were as follows:

	Group 2006 NZ\$000
Purchase consideration:	
Cash paid (excluding direct acquisition costs)	132,263
Direct costs related to acquisition paid in cash	2,462
Cash paid	<u>134,725</u>
Fair value of net assets acquired	<u>94,520</u>
Intangibles	<u>40,205</u>

The intangible assets comprised goodwill and the value of in-force business over and above the fair value of the other net assets acquired. The goodwill was attributable to the profitability of the acquired business and the synergies expected to arise as a result of the acquisition. The value of in-force business was the present value of the future profits on the life insurance policies in-force at the date of acquisition (see note 13).

Value of in-force business	22,606
Goodwill	17,599
Total intangibles	<u>40,205</u>

The assets and liabilities arising from the acquisition were as follows:

	Fair Value NZ\$000	Carrying amount NZ\$000
Cash	15,374	15,374
Accounts receivable	55,228	55,228
Assets classified as held for sale	2,912	2,912
Fixed interest securities	178,030	178,030
Assets arising from reinsurance contracts	134,707	134,707
Investments accounted for using the equity method	657	657
Property, plant and equipment	982	2,780
Deferred tax benefit	14,556	14,556
Intangibles	14,214	14,214
Total assets	<u>416,660</u>	<u>418,458</u>
Accounts payable	79,119	79,119
Taxation payable	3,474	3,387
Provisions	6,665	6,665
Deferred tax liability	16,048	16,023
Policyholder liabilities - insurance contracts	197,008	195,517
Policyholder liabilities - investment contracts	19,826	19,826
Total liabilities	<u>322,140</u>	<u>320,537</u>
NET ASSETS	<u>94,520</u>	<u>97,921</u>

Purchase consideration settled in cash	(134,725)
Cash and cash equivalents in subsidiary acquired	15,374
Cash outflow on acquisition	<u>(119,351)</u>

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41. Impact of amended NZ IFRS

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods, but the Group has not early adopted them:

- IFRS 7, 'Financial instruments: Disclosures', and the complementary amendment to IAS 1, 'Presentation of financial statements – Capital disclosures', introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group's financial instruments, or the disclosures relating to taxation and trade and other payables.

- IFRS 8, 'Operating segments' (effective from 1 January 2009). IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply IFRS 8 from 1 October 2009.

- NZ IAS 23 (Amendment) 'Borrowing Costs' (effective from annual periods beginning on or after 1 January 2009). NZ IAS 23 is not relevant to the Group's operations.

- NZ IAS 1 (Amendment) 'Presentation of financial statements (effective for annual periods beginning on or after 1 January 2009). The revised NZ IAS 1 requires an entity to present all owner changes in equity, separately from non-owner changes in equity, in a statement of changes in equity.

All non-owner changes in equity (i.e. comprehensive income) are required to be presented in one statement of comprehensive income or two statements (an income statement and a statement of comprehensive income). Components of comprehensive income are not permitted to be presented in the statement of changes in equity. This is not expected to have a material impact on the Group.

- NZ IFRIC 14, NZ IAS 19 'Employee Benefits' (effective from annual periods beginning on or after 1 January 2008). The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction. This is not expected to have a material impact on the Group.

42. Subsequent events

On 28 November 2007 the directors declared a dividend of 6 cents per share. The dividend will be paid on 5 February 2008.

43. Company information

For the purposes of complying with Generally Accepted Accounting Practice in New Zealand (NZ GAAP), TOWER Limited is a profit-oriented entity.

TOWER Limited is a publicly listed company, incorporated and domiciled in New Zealand. Its registered office and principal place of business is:

Level 11
TOWER Centre
22 Fanshawe Street
Auckland Central
New Zealand